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ZERO-BASE BUDGET LEGISLATION

*United States, Congress, House, Committee
on the Budget, Task Force on
Budget Process.*

HEARINGS

BEFORE THE

TASK FORCE ON BUDGET PROCESS

OF THE

COMMITTEE ON THE BUDGET

HOUSE OF REPRESENTATIVES

NINETY-FOURTH CONGRESS

SECOND SESSION

—

JUNE 30; JULY 27 AND 28, 1976

—

Printed for the use of the Committee on the Budget



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ZERO-BASE BUDGET LEGISLATION

WEDNESDAY, JUNE 30, 1976

HOUSE OF REPRESENTATIVES,
TASK FORCE ON BUDGET PROCESS,
COMMITTEE ON THE BUDGET,
Washington, D.C.

The task force met, pursuant to notice, at 11 a.m. in room 210 Cannon House Office Building, Hon. Brock Adams (chairman of the task force), presiding.

Present: Representatives Adams and Holt.

The CHAIRMAN. The committee will come to order.

It is a great pleasure this morning to welcome the Honorable James J. Blanchard, and the Honorable James Lloyd, Members of Congress, to testify on the concept of zero-base budgeting.

Mr. Blanchard, myself, and other Members of Congress have appeared before the Rules Committee which has legislative jurisdiction over bills dealing with this area. The Budget Committee has jurisdiction over procedural changes in the Budget Act. We have been asked by the Rules Committee to make recommendations to them on zero-base budgeting, how it might be implemented, and what type of timetable we should expect.

With those opening remarks indicating the scope and the purpose of the hearing, it is a pleasure this morning to welcome Mr. Blanchard and Mr. Lloyd.

Mr. Blanchard, would you like to proceed?

STATEMENT OF HON. JAMES J. BLANCHARD, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. BLANCHARD. Yes; Mr. Chairman.

Mr. Chairman and members of the committee who are here and will be here, I deeply appreciate the opportunity to testify on H.R. 11734, which is known in the Senate and in the House as the Government Economy and Spending Reform Act.

As I think all of us know, even those of us who have been in Congress only 1½ years, the Federal budget and Government spending have long been a favorite topic of politicians and armchair politicians alike. Unfortunately, between those who say "cut, cut, cut" and others who say "reorder our priorities" very little has occurred except speechmaking and frustration.

So I am here today—and there will be other colleagues joining me along with Congressman Lloyd—to testify in favor of what I believe is part of the solution to that frustration and an idea which I believe makes sense in our world of complicated Government and huge Government expenditures.

I am speaking, of course, of my bill and related bills. But, more importantly, I am here today in support of a concept—the concept of zero-based budgeting and review of all Federal spending programs.

As I think you know and many of the committee members understand, when we talk about zero base at the outset we mean generally a regular examination of all spending programs as a whole, rather than just giving careful examination to additions to programs as is far too often the case today.

I stress the fact that I am supporting a concept because I know that many elements in the bill before us, H.R. 11734 and related bills, are going to have to be thoroughly considered and discussed, and certainly at some point if we can move with favorable action they are going to have to be modified and mechanically worked within the House and Senate legislative process.

But the basic concept we are trying to achieve I think is important, that is, to somehow insure that every Federal spending program is subject to thorough questioning and complete evaluation on a regular basis.

I think the need for this legislation is clear, and I would like to briefly summarize some of the reasons which have led me to this conclusion.

Obviously, most Americans, and that includes Members of Congress, are becoming more and more skeptical about the effectiveness and responsiveness of our Government.

That trend shows up not only in opinion polls but also, I think, in voter participation.

All of us are skeptical about the effectiveness of Government because we have growing and searching doubts as to whether the dollars that we invest in Government programs are directly related to the problems we attempt to solve.

We have doubts as to whether there is enough coordination so that two or more agencies are not trying to deal with the same problem and, therefore, wasting valuable resources. We are, of course, in a world of limited resources.

We have doubts as to whether spending programs continue because the original need for them remains, or whether they continue simply because many people who have a vested interest in the programs want them continued.

I think many of us question the responsiveness of Government also because we wonder when something is wrong with a Federal Government program whether there is any mechanism for change or whether the program can be changed within a reasonable length of time.

And, certainly as a new Member of Congress, I have doubts as to whether we are fully capable today here of monitoring and directing the actions of the Federal Government.

For example, in the realm of effectiveness, all of us, I think, have read some of the horror stories about certain agencies and certain programs that have either been discredited or embarrassed, but aside from some of the articles that have taken some programs out of context, I do want to cite some examples.

For example, in 1971 a General Accounting Office study found 11 different child care service programs in the District of Columbia alone, administered by HEW, the Department of HUD, and the Department of Labor.

A 1973 HEW study found 50 Federal programs providing help to handicapped youth. Fourteen separate units within HEW were administering the programs, and the GAO, which examined the HEW study, found that there was no central coordinating point.

I think you may recall that the 1976 Federal catalog of domestic assistance programs lists 1,030 programs administered by 52 agencies, totaling about \$60 billion in expenditures for fiscal 1976; within that 302 health programs administered by 11 agencies; and 259 community development programs. And, even using a more specific heading doesn't really help because, for example, there are 27 different vocational education programs.

A recent Brookings Institution study of the lifespan of governmental agencies that recently came out found that of 175 Government organizations existing in 1923, no less than 148, that is, 148 out of 175, or 85 percent, were still in existence in 1975, and fully 109, or 62 percent, existed in essentially the same status as they had 52 years ago.

In addition, 246 new organizations had been established and the "birth rate" had more than doubled for new organizations.

The Library of Congress, in a similar study, found that 329 bodies were created between 1960 and 1974, while 126 were abolished, for a new 14-year gain of 203.

"Uncontrollable" spending is outstripping controllable areas of the budget in terms of growth, going from 59 percent of the budget in 1967 to 77 percent in 1977. And the most rapid growth of all has taken place in programs with permanent appropriations, which have tripled from \$55 billion to \$165 billion.

In 1973, Mr. Chairman, Congress enacted a major budget reform, the Budget and Impoundment Control Act. That has begun the task of gaining control over a fragmented and generally uncoordinated spending process. It appears to me that the process is working very well. I think, certainly in the House, this committee is largely responsible for that success and should be commended, which makes it all the more exciting, and I think makes me all the more optimistic that your task force will consider what I think is the logical continuation of that budget reform; namely, zero-base review. I think it is a necessary step and one which speaks to all of the questions and doubts that I have raised earlier.

My bill, H.R. 11734, and Senator Muskie's bill, S. 2925, puts the focus of review on our regularly established congressional committee process. A major role is given to the GAO, to the Office of Management and Budget, and to the Congressional Budget Office.

The fact remains, however, that our bills will require Congress to begin to dramatically increase its historic and important oversight functions. I think that this oversight or evaluation function will not only help Congress review programs and allow us to measure whether we as taxpayers are getting our dollars' worth out of Government. But just as important, I think a strong oversight process will allow Congress to begin to restore the balance of power between the executive branch and the legislative branch.

Under the bill in front of you the full evaluation of each Federal spending program will occur on a 4-year cycle basis, with some positive action required by Congress before a program could continue in existence.

It will require the review of all programs within a given functional category at the same time, so that, hopefully, Congress will have a chance to determine how widely overlapping programs and duplication has spread.

By so doing, it would allow Congress not only to state its priorities, as the Budget and Impoundment Control Act requires, but to determine whether those priorities are in fact being carried out.

I think it would redirect the attention of Congress and the administration from the everlasting proposing of more and more new programs and, instead, toward finding the best means of solving those problems we have already addressed with Government programs.

All of us know that in the last few years we have seen a rapid expansion in the growth and extent of the Federal Government. I think it is time now for a period of increased consolidation—to regain the confidence of the American people that Government is under control, and to prevent a backlash that could erase many of the gains that have been made within government and within our society. I think we have reached the point where more progress can be made by examining existing Federal programs to see which work and which don't, rather than by devising new ones.

Before concluding, let me simply indicate briefly some of the history of my bill and related bills.

Last July, I introduced a similar, though less comprehensive zero-base budgeting bill called the Truth in Budgeting Act in the House. It was cosponsored by 68 other Members, including those with me, and Congressman Ottinger who has just joined us.

In February, Senator Muskie over on the Senate side introduced S. 2925, which would establish the same process, and so a day or two later myself and Congressman Mineta introduced the companion bill over in the House, H.R. 11734.

Incidentally, Congressman Mineta has been delayed in Milwaukee and will be unable to be here today.

We introduced the House companion and promptly gathered a healthy number of cosponsors. There are 112 cosponsors in the House and a list of those individuals is attached to my statement.

In the Senate we have 55 cosponsors, and the Subcommittee on Intergovernmental Relations has reported out this bill to the full committee, revised somewhat, and it is scheduled for a markup after the July recess over in the Senate.

Some of the Senate changes include instead of a 4-year cycle for review they have moved it to 5. They have altered the timetable, giving Congress more time to conduct the oversight, and they have shifted more of the work in gathering information and conducting zero-base review to the Office of Management and Budget.

In addition, they have included an amendment which requires that all tax expenditures be reviewed the same way Federal programs are, which is a substantial addition.

Both bills, whether the House or the Senate version, have broad support of a cross-section of our membership from all regions and all areas of the country and both parties. All together we have Representatives from 36 States, Senators from 41, and at least one Representative or one Senator from 48 States.

As you have stated earlier, the Rules Committee held an afternoon hearing on this bill, since it has jurisdiction over this bill and is looking for some guidance, for some in-depth analysis by the Budget Committee. It was certainly clear to me, Mr. Chairman, before the Rules Committee that that committee has enormous confidence in the Budget Committee. I also believe that the careful and complete evaluation we will be giving this concept today and more importantly, through what I understand will be extensive hearings after the July recess, will be well received.

So, we look to you, those of us who have been enthusiastic with the idea, and there are quite a few of us, for a careful consideration of this bill and, just as important, the concept it embodies.

I am convinced personally that passage of some form of zero-base budgeting is inevitable and I am hopeful that thoughtful and eventual action will come from your committee with a recommendation to the Rules Committee to enact this process.

The only thing I would like to say in conclusion is that I think the bill is a good Government proposition and I understand, even though I am a freshman, that to make the process work will be an enormous undertaking—an enormous undertaking—but it is a commitment and a process that I think is long overdue and one which will be welcomed by the people of our country.

I thank you again.

[The list of cosponsors referred to by Congressman Blanchard follows:]

COSPONSORS OF H.R. 11734—GOVERNMENT ECONOMY AND SPENDING REFORM ACT

(HOUSE OF REPRESENTATIVES)

Jerome A. Ambro
 Glenn M. Anderson
Mark Andrews
 Les AuCoin
L. A. (Skip) Bafalis
 Max Baucus
 Edward P. Beard
Robin L. Beard
 Berkley Bedell
 Michael T. Blouin
 William M. Brodhead
James T. Broyhill
Clair W. Burgener
 Yvonne Braithwaite Burke
 Bob Carr
William S. Cohen
James C. Cleveland
 James C. Corman
 Norman E. D'Amours
 Dominick V. Daniels
 Butler Derrick
 Christopher J. Dodd
 Thomas J. Downey
 Robert Duncan
 Robert W. Edgar
 Don Edwards
David F. Emery
 David W. Evans
Millicent Fenwick
 Joseph L. Fisher
 Floyd J. Fithian
 Don Fuqua
Benjamin A. Gilman
Charles E. Grassley
Gilbert Gude
 Mark W. Hannaford
 Augustus F. Hawkins
 Ken Hechler
 W. G. (Bill) Hefner
 Henry Helstoski
 Kenneth L. Holland
 James J. Howard
 Allan T. Howe
 Carroll Hubbard, Jr.
 William J. Hughes
 John W. Jenrette, Jr.
Albert W. Johnson
 Ed Jones
 James R. Jones
 Walter B. Jones
 Martha Keys
 Edward I. Koch
 John Krebs
 John J. LaFalce
Robert J. Lagomarsino

William Lehman
 Elliott H. Levitas
 Jerry Litton
 Jim Lloyd
 Marilyn Lloyd
Manuel Lujan, Jr.
 James R. Mann
 Dawson Mathis
 Ralph H. Metcalfe
 Lloyd Meeds
 Helen S. Meyner
 Abner J. Mikva
 Dale Milford
 George Miller
Donald J. Mitchell
 Anthony Toby Moffett
 Robert H. Mollohan
 William S. Moorhead
 Morgan F. Murphy
 Stephen L. Neal
 Lucien N. Nedzi
 Henry J. Nowak
 James G. O'Hara
 Richard L. Ottinger
 Jerry M. Patterson
 Edward W. Pattison
 Claude Pepper
Shirley N. Pettis
 Donald W. Riegle, Jr.
 Peter W. Rodino, Jr.
 Robert A. Roe
 J. Edward Roush
 Harold Runnels
 Martin A. Russo
 Jim Santini
Ronald A. Sarasin
 John F. Seiberling
 Philip R. Sharp
 Paul Simon
 Gladys Noon Spellman
 Fortney H. (Pete) Stark
Alan Steelman
 Gerry E. Studds
 James W. Symington
 Bob Traxler
David C. Treen
 Richard F. Vander Veen
 Henry A. Waxman
 James Weaver
G. William Whitehurst
 Charles Wilson (Texas)
 Timothy Wirth
 Gus Yatron
 Leo C. Zeferetti

COSPONSORS OF S. 2925—GOVERNMENT ECONOMY AND SPENDING
REFORM ACT

(U.S. SENATE)

James Abourezk
James B. Allen
Howard H. Baker, Jr.
Birch Bayh
J. Glenn Beall, Jr.
Henry Bellmon
Lloyd Bentsen
Bill Brock
James L. Buckley
Harry F. Byrd, Jr.
Howard W. Cannon
Lawton Chiles
John C. Culver
Carl T. Curtis
Pete V. Domenici
Thomas F. Eagleton
James O. Eastland
Paul J. Fannin
Jake Garn
John Glenn
Berry Goldwater
Clifford P. Hansen
Vance Hartke
Floyd K. Haskell
Mark O. Hatfield
Jesse A. Helms
Ernest F. Hollings

Walter Huddleston
Hubert H. Humphrey
J. Bennett Johnston, Jr.
Edward M. Kennedy
Paul Laxalt
Patrick J. Leahy
James A. McClure
Gale W. McGee
George McGovern
Thomas J. McIntyre
Mike Mansfield
Charles McC. Mathias, Jr.
Walter F. Mondale
Frank E. Moss
Edmund S. Muskie
Sam Nunn
Charles H. Percy
William Proxmire
William V. Roth, Jr.
Richard S. Schweiker
Hugh Scott
Robert T. Stafford
Ted Stevens
Stuart Symington
Robert Taft, Jr.
John V. Tunney
Lowell P. Weicker, Jr.

The CHAIRMAN. Thank you very much, Representative Blanchard, for an excellent statement. I think the best way to proceed is to have the other members of the panel place their statements in the record and orally summarize them.

Prior to that, I would like to indicate that Representative Jones of Oklahoma, who is very much in support of zero-base budgeting, had been here to testify. Unfortunately, he was called away to testify before the Ways and Means Committee. He hopes to return, but in the meantime, if there is no objection, I would ask that the statement of Representative James R. Jones of Oklahoma be inserted in the record immediately following the testimony of Mr. Blanchard.

Hearing no objection, it is so ordered.

[The prepared statement of Representative Jones follows:]

PREPARED STATEMENT OF HON. JAMES R. JONES, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF OKLAHOMA

Mr. Chairman, I wish to take this opportunity to thank the Budget Committee for providing me an opportunity to discuss my deep concern on the growing problems of our Federal bureaucracy and programs. Since coming to Congress in 1973, by far the most disturbing problem to me has been dealing with and understanding the complexities of our Federal agencies and programs. When I was appointed to the President's Regulatory Reform Commission last year I asked my staff to try and give me some concept of the magnitude of this Federal maze. The figures were difficult to put together but I believe a conservative survey will show that we have on the order of: 11 cabinet departments, 44 independent agencies with 250 bureaus, and 1,240 committees, commissions, and councils.

We find in the independent agencies alone, some 63,000 employees, with a direct annual cost to the Federal Government of \$4 billion. These regulators in turn bring substantial additional costs on our citizens. President Ford has estimated that these regulators cause additional financial burdens on our citizens in the area of \$2,000 per family or a total of \$130 billion annually.

I could continue on and on and inundate you with shocking statistics and horror stories that would highlight the cost, confusion, duplication and waste of funds resulting from our present proliferation of Federal agencies and programs.

With all the certainty that I am sitting here today, I know, the American public knows and certainly those in the Tulsa area who I hear from everyday, are demanding a fresh new look at our Federal agencies and programs.

In April of this year in what appeared to me the only rational response to this generally recognized problem, I introduced a bill, H.R. 13066.

Briefly, H.R. 13066 calls for:

(1) All government programs and activities would be required to be reauthorized every four years or be terminated, with certain limited exceptions.

(2) Establishment of a schedule for reauthorization of government programs and activities on the basis of groupings of budget function whereby programs within the same function would terminate simultaneously, so that Congress would have an opportunity to examine and compare Federal programs within that functional area in its entirety rather than bits and pieces. The General Accounting Office would be asked to identify inefficiencies and assist the Congress with recommendations for improvement.

(3) My bill would reverse the assumption that all programs and agencies deserve to be continued just because they existed the year before and would incorporate a zero based budget review into the reauthorization process.

(4) My bill would provide a Congressional review of the steady stream of regulations that come forth from the bureaucracy.

In my opinion, the key element of my proposal is a zero base budget review during the authorization process.

Zero base budgeting would impose a competitive arena for Federal agencies and programs. They would be compelled to convince the Congress that they could accomplish their legislative goals more effectively and efficiently than alternative programs or agencies. Simply stated, this competitive approach would eliminate Congressional funding of outmoded and inefficient agencies. To accomplish my goal, Congress would compare alternative means to gain maximum cost efficiency. I feel it is about time the business of government is run like the business of America.

I am pleased that your committee has provided me and the other panel members an opportunity to expand on this proposal. In my opinion, if we in the Congress fail to adopt an effective zero base budget review mechanism, we will permit a festering Federal situation to grow worse and we in the Congress and the American public will suffer severely. I firmly believe we must act now on proposals for a zero base budget review.

Thank you.

The CHAIRMAN. It is a pleasure now to recognize the Representative from California, Mr. Lloyd, and also to welcome to the committee, Representatives Neal and Ottinger. We will be most pleased to receive your statements and then we will direct some questions to you. We want this hearing to set a framework for the later hearings that are planned in July.

Representative Lloyd.

STATEMENT OF HON. JIM LLOYD, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. LLOYD. Thank you very much, Mr. Chairman and members of the committee.

I appreciate the opportunity to be here this morning to make a presentation. Obviously, I am very much pleased to join with my colleagues not only as a cosponsor of this bill, but in the intense spirit of making reasonable change in Government.

Zero-based budgeting whether for regulatory agencies, which is my particular interest, or applied comprehensively, is a method of accountability. When I was the mayor of West Covina, Calif., the city had to function within a balanced budget and I promised residents

of the 35th District that I would work for the same fiscal responsibility while I was here in Congress.

With the new budget process, and, of course, I think you have done an outstanding job, Congress is beginning to control Federal spending. We know how many tax dollars are being spent. The only thing we have to now really check on is the why and the where. The concept of zero-based budgeting, of course, was tried in Colorado and as one Colorado Representative describes the present situation, we tend to create things—and he is talking about Government—and then forget about them.

H.R. 11734 is more than an oversight process. It is an opportunity to make bureaucracy accountable to Congress and Congress accountable to the American people. Under the zero-based budgeting, Federal spending is divided into four categories slated for review in successive years.

No program growth can take place until the review has been completed. This is a comprehensive process with the burden of showing cost effectiveness and practical goals placed on bureaucracy. Duplicated and obsolete services can be abolished. Government would not be created and forgotten at the expense of the taxpayer.

My interest in this concept is reflected not only in my support for the bill but through legislation I introduced applying the process to Federal regulatory agencies. The millions of dollars and hours private enterprise spends complying with restrictions and reporting requirements has become a nightmare of redtape without relation to effectiveness or even necessity.

Agencies have just mushroomed without the hard-nosed review we in Congress have the responsibility to provide.

Despite token public participation, our citizens have no effective way except through their elected officials to voice their opposition to self-perpetuating, autonomous agencies fueled by tax dollars of those it is regulating and, in a larger sense, governing.

Congressional budget process is a first step toward reclaiming that control, and I support the related bills providing zero-based budgeting and automatic review and termination of unresponsive agencies.

Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Lloyd.

We appreciate your statement. We will look forward to questioning you on your position.

Representative Neal.

STATEMENT OF HON. STEPHEN L. NEAL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH CAROLINA

Mr. NEAL. Thank you, Mr. Chairman.

Mr. Chairman, I want to thank the Budget Process Task Force for the opportunity to appear here to voice my support of H.R. 12055. I also want to congratulate the chairman for his interest in the bill, and the task force for its expeditious consideration of the zero-base budget concept.

It is a concept which I have been working on for more than a year, having first learned about Jimmy Carter's use of it while he was still Governor of Georgia. Over the last year I had been working on a

bill which embodied the concepts as practiced successfully in Georgia, seeking to apply them at the Federal level.

When S. 2925 was introduced in the Senate, I determined that its concepts and purposes were nearly identical to my own. Therefore, I introduced an identical bill in the House of Representatives, hoping to avoid a possible conflict between different versions, and avert needless delay in writing these concepts into law. Meanwhile, other Members of Congress were proceeding in the same direction and I would especially like to commend Congressmen Blanchard and Mineta for their outstanding leadership in this area.

Mr. Chairman, zero-base budgeting, in my opinion, is a concept whose time has arrived at the Federal level. Together with our implementation of the Budget Impoundment and Control Act of 1974, it offers new hope that the Congress can get a firm grasp on the Nation's fiscal affairs. While I believe that additional steps must be taken to achieve and maintain a balanced budget, I also think the public would find reasonable short-term deficits more palatable if assured its tax dollars are not being wasted.

While we have only recently begun to talk about zero-base budgeting at the Federal level, it is not an untried idea. It has been found to work in business and industry, and in government was practiced with laudable success in the State of Georgia while Jimmy Carter was Governor. Because the concepts practiced in Georgia generally apply to those proposed in H.R. 12055, I would like to recite what zero-base budgeting entailed when the program was started in Georgia in 1971.

Zero-base budgeting required each agency to analyze and justify its entire appropriations request in detail—current activities as well as new activities.

The first step required the preparation of a "decision package" for each function or activity. The package contained an analysis of the cost, purpose, alternative courses of action, measures of performance, consequences of not performing the activity, and benefits derived from the activity. The second step required that each decision package be ranked in order of importance against other current and proposed activities. During the first year, the State Government analyzed about 10,000 such "decision packages."

The decision packages were developed by managers throughout all levels of State government because they were experts in their activities, and their recommendations and analyses were important. Additionally, the State wanted them to become familiar with the budgeting process and to evaluate their own cost effectiveness.

Different ways of performing each activity were identified, such as centralized versus decentralized operations, or evaluating the economy of State-run print shops versus commercial printers. Alternatives for different levels for performing each activity also were identified. Managers were required to identify a minimum level of spending—often as low as 75 percent of current spending levels, and then identify in separate decision packages the costs and benefits of additional levels of spending for their activity.

The requirement of alternative spending levels forced every manager to consider and evaluate a level of spending lower than his or her current operating level. It also gave each manager the alternative of eliminating a function, or choosing from several levels of effort.

In order to fund some of the important new programs which were proposed, some programs of lesser importance were reduced or eliminated. Therefore, each decision package was considered on its own merits, disregarding the fact that it was either a current or a new activity.

Zero-base budgeting was linked with a Goals for Georgia and a reorganization program in a unified attempt to improve State government. In the long term, the most significant impact is expected to occur in the middle levels of agency management, where managers will have to evaluate in detail their planning, operations, efficiency, and cost effectiveness on a continuous basis.

Mr. Chairman, I think zero-base budgeting is a sound fiscal tool which has proven itself in business and State government. If it works profitably for business and State government, it can work profitably for Federal Government.

It might be said that profit is not the motive of the Federal Government. My answer to that is that debt is not its motive, either; and I think it would be a good thing if we began setting surpluses as our goal. We might then leave our children a better fiscal heritage than a half-trillion-dollar mortgage on their economic future.

Mr. Chairman, I have no doubt that zero-base budgeting would serve as a mechanism for greater economy and efficiency in the Federal Government. Because every agency and activity would receive zero-base evaluation at least once every 4 years—and knowing that they would have to be productive and cost-effective to justify their continuance—every activity of Government would be placed on a “shape up or ship out” status. Existing programs which fail the requirements of productivity, economy and efficiency would be eliminated or greatly reduced. Duplicative programs would be combined. New programs—such as health insurance, for instance—could be brought on line by using the nonproductive funds previously allotted to ineffective or unneeded programs and/or agencies.

Mr. Chairman, if there is one area in which the Congress has failed to live up to its responsibilities, it is the area of oversight. It is amazing to me that the legislative branch of this Government functioned for almost 200 years without the procedures finally established in the Budget Impoundment and Control Act. Even more amazing, I think, has been the tendency of the Congress to appropriate vast sums of money with a seeming lack of concern for where the money comes from, or what it is producing once it is appropriated. The history of the Congress seems to have been to permit bureaucratic waste and inefficiency until there was a public outcry against it, then to conduct investigations which were more or less unproductive.

The Founding Fathers clearly intended, and the Constitution requires, that the Congress be the guardian of the Nation's purse strings. We have not only the responsibility of authorizing and appropriating funds, but the additional duty of seeing that tax dollars are spent wisely and for productive purposes.

I think the Congress may have sent the goat to guard the cabbage patch when in 1921 it relinquished, by and large, the budgetmaking process to the executive branch. We have reclaimed a portion of our authority, and have rededicated ourselves to our responsibility, by enacting and implementing the Budget Impoundment and Control

Act. I believe we will come even closer to fulfilling our responsibility by enacting H.R. 12055. Its concepts have my full support.

I would be glad to come back again if you do so desire when you resume your hearings.

The CHAIRMAN. Mr. Neal, after the staff has had the opportunity to analyze your testimony and material from other sources, we would be both willing and anxious for you to testify in July.

I appreciate very much your being here and thank you for your statement.

Representative Ottinger.

STATEMENT OF HON. RICHARD L. OTTINGER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. OTTINGER. Thank you very much, Mr. Chairman.

I want to thank you for holding these hearings and also pay tribute to my colleagues, particularly Mr. Blanchard and Mr. Mineta, and also Mr. Lloyd, for initiating this legislation.

I am very pleased to be an original cosponsor with them.

I think that this kind of legislation can do nothing but good. It will not only improve our oversight, as has been pointed out, but I think the fact that each agency is going to have to look at every department and every subdepartment within its jurisdiction and know that it is going to have to justify all the activities that it has from a point of view of eliminating each will have a very salutary effect within the executive department.

We have many anomalies in the Government that have grown up. Some of the most dramatic that have been pointed out in the past are the continuation of the tea tasters—I understand that still exists today—and the Federal Metallic and Nonmetallic Mine Safety Board of Review which hadn't met in years and yet we continued to pay their expenses.

But beyond that we just have enormous duplication in a great many areas of government. I have listed some of them in my statement which I would ask be included in full.

The CHAIRMAN. Without objection, the statement of the Honorable Richard L. Ottinger will appear in full in the record.

Mr. OTTINGER. Some of the examples are that our General Accounting Office found 11 different child care programs in the District of Columbia alone administered by three different Departments: HEW, HUD, and the Department of Labor.

A 1973 HEW study found 50 Federal programs providing help to handicapped youth. Fourteen separate units within HEW administered the programs, and the GAO, which examined the HEW study, found that there was no central coordinating point.

We have studies like this made, and they make a big sensation in the press the day they are released and nothing happens with them. I am certainly as much a champion as anybody of having adequate child care and having aid for the handicapped youth of our country, but to have this kind of duplication raises certainly a presumption that something is going wrong and that chances are that these programs aren't being administered with the efficiency with which they could be.

I think it will have a very good effect to require the justification of this kind of duplication that does tend to grow up. Of course, there tend to be constituencies that grow behind each of these programs and smoking that out into the open will be good, too, focusing public attention on whether a program should exist rather than what size or shape it should have. A good example of that is the revenue-sharing debate that we just had on the floor of the House where the whole debate seemed to be focused on how they were going to divide the pie and what kind of formula we should use rather than whether there should be a pie at all, or on what other alternative and perhaps more constructive ways that we could have to help our local governments and our cities relieve themselves of their enormous burden of the inequitable property taxes and sales taxes that they rely on other than just revenue-sharing programs.

I would also like to add that I am not only concerned about eliminating the waste in Government—to which I think this legislation is primarily directed—but also to something which your committee has also addressed itself to and that is to see to it that there are adequate moneys devoted to the areas of real need. These two are very much related because we are going to be able to devote more moneys to the areas of real need only if we are able to eliminate some of the waste.

What has particularly disturbed me is the degree of control over the budget that has been exercised by the Office of Management and Budget. I have introduced legislation to try to bring that process under control and require the OMB people to come up and justify the changes they make in programs, recommendations in programs, before the Congress and it seems to me this is another piece of this whole puzzle—getting control.

It is very disturbing, indeed, to have our committees of Congress deal with the departments of Government and really rake them over the coals and formulate programs and pass authorizations and appropriations only to find out that what the departments really wanted was sliced in half by faceless OMB people who don't come up and justify what they are doing.

That happened to us in the solar energy program. It happened to us with respect to conservation before the Science and Technology Committee—which Mr. Blanchard is very familiar with. The people in the departments that have the responsibility and have the knowledge are not permitted to say what they really feel is in the best interests of the country because their statements are edited and their requests are edited by the OMB people. If the OMB people under our form of Government are going to make the real decisions about where and how the money is spent, then they ought to be the ones required to come before the Government and justify their knowledge.

This is an area of tremendous duplication. It used to be that the Bureau of the Budget was just a small coordinating group for the President. Today that Bureau of the Budget virtually duplicates the entire Government. They have experts at OMB to second guess every decision that is made in every department and agency of Government. I think that that is an area of real waste and expense to the taxpayer that ought to receive our attention.

So we very much need and want your support behind legislation that will meaningfully control expenditures, that has the zero-base budgeting, that will get on top of how the executive department really works through the OMB, and I think the tremendous respect that you have built up within Congress could be of tremendous use in improving the process which you have so very well started.

Thank you very much for the opportunity to appear.

[The prepared statement of Representative Ottinger follows:]

PREPARED STATEMENT OF HON. RICHARD L. OTTINGER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. Chairman, I would like to express my strong support for the Government Economy and Spending Reform Act of 1976 of which I am a cosponsor.

Probably one of the best brief statements in support of legislation of this kind came from Richard Leone, State Treasurer of New Jersey, who said, "There is probably nothing better than the discussion of total dismantlement as a short cut to finding out who supports a program, how much importance they place on its continuance, and what those people have in terms of alternatives." Our government is rife with examples of waste. Experience has shown that only a drastic measure involving consideration of abolition of agencies will achieve a truly comprehensive reevaluation of existing federal programs and elimination of programs which are redundant, irrelevant, or ineffective.

In considering this legislation we have to face the fact that the American people have become disenchanted with their government. Too frequently we read of bureaucratic waste and red tape getting in the way of real human needs or of obscure and obsolete federal programs such as the Federal Metal and Nonmetallic Mine Safety Board of Review or the Tea Tasters which do nothing, yet still receive government funds. Meanwhile, the American people have been forced to underwrite the cost of this expansion. The tax burden of the American family was 11.3 percent of their total income in 1953. In 1974, families were paying 23.4 percent of their incomes in direct federal, state and local taxes. Furthermore as my distinguished colleague Rep. Blanchard pointed out in his testimony before the Rules Committee on June 21, there are excellent recent examples of this unchecked growth.

A General Accounting Office study found 11 different child care service programs in the District of Columbia alone, administered by the Department of Health, Education and Welfare (HEW), the Department of Housing and Urban Development (HUD), and the Department of Labor.

A 1973 HEW study found 50 federal programs providing help to handicapped youth. Fourteen separate units within HEW administered the programs, and the GAO, which examined the HEW study found that there was no central coordinating point.

The federal catalogue of domestic assistance lists 1,030 programs administered by 52 agencies, totaling \$60 billion in expenditures for fiscal year 1976; 302 health programs administered by 11 agencies; and 259 community development programs. And the list goes on.

Furthermore the Library of Congress, in a similar study, found that 329 bodies were created between 1960 and 1974, while 126 were abolished, for a net 14 year gain of 203 agencies, bureaus, and offices.

What people are properly complaining about, in my view, is *bad* government, government which is incompetent and unresponsive, government which is not attuned to modern needs and conditions, government which doesn't care about the people, and aspects of government that are wasteful.

The growth of government has accompanied the expansion of technology and the increasing knowledge of how that technology may affect people's health and safety. Continued population growth and urbanization has meant that individual lives increasingly impinge upon one another. We no longer have a frontier which can serve as an escape valve for this kind of pressure. The result has been the inevitable—and necessary—growth of government as a regulator to deal with the conflicts that technology and progress have created in our society.

The problem—and the true nature of the criticism—is not simply the fact of this government, but rather its failure. When these systems and regulatory mechanisms break down, then we begin to read articles attacking all regulation indiscriminately.

The bill before your committee, Mr. Chairman, would help to eliminate such difficulties by requiring a complete review of all federal programs on a periodic basis, as well as examinations of their cost-effectiveness and alternatives to them.

This fundamental shifting of the burden of proof to programs to justify their existence is necessary to achieve meaningful progress in dealing with the federal bureaucracy. Experience has shown that other methods of Congressional and Executive oversight have not been effective. Though all committees have oversight responsibilities, these duties are pursued with widely varying degrees of enthusiasm and tenacity. Regrettably much oversight is irregular and haphazard—a brief series of hearings prompted by a scandal or news report of the passing interest of a subcommittee chairman. The result is equally transitory—usually a detailed report which may garner a headline or two before sinking into permanent obscurity.

It is rare that an oversight effort is followed by the quick passage of remedial legislation. In fact, I suspect it is rarer still that any oversight effort results in permanent change within a federal agency.

One of the serious problems we have had to deal with in the years since the growth of domestic spending programs is the creation of a built-in constituency for each program which feeds on it, earns livelihoods from it, and, in short, is dependent on the continued existence of the program. These various constituencies have proved exceptionally adept over the years at lobbying Congress for continuation of "their" programs. Members of Congress with extensive programs or grants in their districts find themselves under heavy pressure from constituents and local governments to vote for continuation without change in order to keep the money flowing.

A classic example was the recent debate over revenue sharing. Throughout the long process of considering renewal of the program I found little concern over the merits of the program—or lack of them—but considerable concern over the funding formula, additional restrictions which might be imposed on recipients and the length of reauthorization for the program. The question all revolved around how to divide up the pie, and not on whether the pie in fact deserved to be eaten.

H.R. 11734 would shift this burden, change the context of debate, and hopefully by doing that produce a more objective analysis by Members of the need for existing programs.

What our citizens are demanding is a more efficient, responsive, and competent government, one that nearly delivers what it promises, one that makes its decisions humanely, quickly, and understandably, and one that does not proliferate without any rational scheme. Of course that's a Herculean task, but there is no question in my mind that this bill represents a step in the right direction.

The CHAIRMAN. Thank you, Representative Ottinger. Congressman Mineta was scheduled to appear at this time. We understand that he has been detained in travel. Therefore, if there is no objection, I would like to insert Congressman Mineta's statement in the record.

[The prepared statement of Representative Mineta follows:]

PREPARED STATEMENT OF HON. NORMAN Y. MINETA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. Chairman and members of the committee, I am very pleased to have this opportunity to take part in your hearings on the Government Economy and Spending Reform Act of 1976.

The objective of this legislation is a more efficient Federal Government, and I would submit that there is no clearer mandate from the American people today than the need to make considerable improvements in government efficiency. There is overwhelming public sentiment—the feelings of our own constituents—that government is not giving them anything close to a "good return" on their investment.

In order to achieve this objective, H.R. 11734 would require standing Committees of the Congress to review and evaluate federal programs and activities within each of the functional categories once every four years. For no program could budget authority extend beyond this quadrennial review point. The sole exemptions to this requirement would be the payment of interest on the national debt, and programs under which individuals make payments to the Federal

Government in expectation of later compensation: railroad retirement, social security, civil service retirement and medicare.

By conducting this evaluation of each program within the context of its functional category, the Congress would have a new and urgently needed mechanism by which to determine which programs: (1) Duplicate or overlap on other programs, or (2) operate at cross-purposes with other programs.

By conducting this evaluation using the mechanism of Zero Base Budgeting, each program would be subjected to scrutiny "from the ground up," not just on the increment of additional funding or additional authority being sought for that program. This would facilitate Congressional efforts to determine which programs: (1) Have outlived their usefulness, (2) do not efficiently fulfill the purposes for which they were created, or (3) no longer reflect the priorities of the American people. Any program or activity which could not withstand such rigorous examination—which could not in effect, justify its existence—would be altered, consolidated, reduced, or eliminated. No longer would any program continue in perpetuity solely because it had received funding or authority in the past.

In short, the process we are proposing here today would assure the mandatory, periodic, and comprehensive review of government agencies and programs and would lead to the termination or modification of those that have outlived their usefulness, that duplicate other programs, that operate at cross-purposes to other programs, that have proven unworkable, or that reflect only the priorities of the past.

Implicit in this legislation is the belief that Congress has the responsibility not just to create new programs and launch new initiatives, but it also has some responsibility for the implementation and performance of the programs and for the day-in-day-out effect they have on the lives of Americans. H.R. 11734 would give the Congress the tools by which it can live up to its oversight obligations.

Also implicit in this legislation is the belief that the vast number of federal agencies and programs lack sufficiently coordinated Congressional management. In order to view this problem from the recipient's-eye-view, I would like to assume for a moment the cloak and the local perspective of my former job—that is, Mayor of San Jose, California. I believe that the implementation of this review process by the Congress has the potential to greatly improve direct Federal-local relations under the grant-in-aid system. By focusing Congressional scrutiny on the entire functional area, rather than just on its programatic parts, this process would provide us with a mechanism for resolving the competing and often-times contradictory objectives of individual programs—the cross-purposes—that manifest themselves so clearly at the local level. These spending reform procedures should also serve to eliminate some of the "red tape" associated with assistance programs which shows up locally as added costs to the already overburdened taxpayers, and which is not directly related to the attainment of any program objectives.

The limited nature of our fiscal resources requires us to find a way to set budget priorities and allocate those resources effectively and efficiently. While severe needs are *not* being addressed and national problems demand attention, we cannot allow present program deficiencies to continue uncorrected. We have spent billions of dollars on health care and have enacted hundreds of health-oriented programs, but the fundamental problem of providing quality health care at a price people can afford has yet to be solved. We have spent billions of dollars on education, yet each year students graduate from high school without basic reading and writing skills.

We have spent billions of dollars *annually* on transportation, yet in many respects transportation is a less vital sector of our economic life than ever before, and certainly major questions of intermodal imbalance remain unaddressed by the Congress' piecemeal, program-by-program deliberations. These are the kinds of problems the Congress must address "from the ground up" and on a functional category basis.

By eliminating inefficient programs we will have the resources for more creative and effective efforts to solve our nation's problems. If we are to continue to offer innovative programs to deal with these problems, we have to learn to subject existing programs to closer and more rational scrutiny. We need to take a step in restoring public trust in government by demonstrating Congressional commitment to providing a publicly responsive process to scrutinize the Federal government, to eliminate waste, and to allow room to set an agenda of today's national priorities and to formulate creative efforts to solve national problems.

I do not believe we can afford anything less—neither in terms of our financial resources, nor in terms of public confidence in government.
Thank you.

The CHAIRMAN. I will briefly question the witnesses and then I will turn to Mrs. Holt.

There are two problems in effectively implementing the reforms in the Congressional Budget Impoundment and Control Act.

The first problem is what to do about the double track system in Congress. We are experiencing this problem here this morning. The witnesses are required to be in two places at the same time. I have not yet found anyone who has mastered the art of being in two places at the same time.

I think that it is essential that whoever has the responsibility for reviewing programs, under a zero-base budgeting system, must have the time to devote to this task. For example, who should do the evaluation—the authorizing committee or the Appropriations Committee?

The second problem I would like you to address is how you might combat inertia in order to get a program's budget reviewed.

You have a rather crude system proposed, and I only use the word "crude" in the sense that you take the functional categories and divide them into four sections. We have found on the Budget Committee that we have been successful in struggles where we had inertia on our side.

In other words, where somebody was trying to create a new program we might be able to stop it, but where we were trying to reduce a program already in existence, we have not been able to bring that under control as yet.

Two examples are the 1-percent kicker, which is now before the Post Office and Civil Service Committee, and the highway program.

Is there any way to get a review of these programs other than simply terminating them?

Mr. BLANCHARD. Mr. Chairman, I will try to answer both your questions and then defer to my colleagues. You have asked an awful lot.

I happen to think that Congress, like most major institutions, has failed to adapt to the changing and new times. I personally believe—it may be presumptuous of me to say this—that Congress is in great need of overhaul even though I am mindful that Congress with the help and support of both you and Mrs. Holt have tried and have begun in the budget area and with the committee modification area an overhaul, but I think we have an institutional problem which is much wider than the simple matter of budget, which is no simple matter.

I think most standing committees have an oversight subcommittee, and that suggests that the zero-base review process might very well be the assignment, and the only assignment, of oversight subcommittees.

The CHAIRMAN. Would it go to all of the other subcommittee jurisdictions in terms of oversight? I will give you an example of one I am familiar with, and I know Mrs. Holt could probably give you the same example. It is Armed Services.

In the Interstate Committee, there are between six and eight subcommittees; the exact number depends upon the needs of a particular year. Would the oversight committee have the right to move on programs within the jurisdiction of the other subcommittees?

Mr. BLANCHARD. That is a difficult question. I am not sure.

The CHAIRMAN. I have had difficulty with this all year, Mr. Blanchard.

Mr. BLANCHARD. It is something your committee ought to consider. It just seems to me that there shouldn't be any great need to add another subcommittee or more structure on top of our committee process.

Our bill provides for a lot of summary work to be done by the GAO, for example, and by the Congressional Budget Office, and by OMB. I have a feeling the GAO would need a larger staff, very honestly. We have 22 standing committees and 143 subcommittees and it would seem to me not only that that is too many but we don't have to add more layers on top of that, and the natural focal point at the outset ought to be the oversight subcommittees of the various full committees.

I happen to think, and didn't when I arrived here, that it is probably unrealistic to have Members of Congress serve on two Committees. I am increasingly persuaded that one committee assignment is probably the wisest, with privileges to participate and attend other committees, so that Members won't feel straitjacketed on issues which either vitally affect their district in another committee or issues which become topical.

Mrs. HOLT. Will the gentleman yield?

Mr. BLANCHARD. Yes.

Mrs. HOLT. We will have to get more Republicans if we are going to do that because we don't have enough.

Mr. BLANCHARD. This bill is a bipartisan effort, Mrs. Holt. I will leave that assignment to you, and I know you are working hard at it.

I do think the struggle, though, and we have seen it in Science and Technology between OMB and the agency it is working with, is a very real problem. The Senate decided, I think perhaps with wisdom, perhaps not complete wisdom, and because of the recommendations of witnesses who testified in favor of this process, to give a much greater role to OMB in the zero-base budgeting and review process.

My thinking is that if they have too great a role Congress will not have much faith in the output. Regardless of which party is in power, by the way, I think Congress will ultimately not have much faith in what OMB is doing if it does too much in the process because we are going to wonder who is making the decision, and we have seen this regard to ERDA in the Science and Technology Committee.

I would have to concur with what Congressman Ottinger has said, and he has devoted a year and I have devoted less time, but we have seen it with a new agency; with whole new authorizations we have seen a complete difference between what various Departments in ERDA wanted and what ERDA wanted and what OMB finally came down with. We have seen some of the ERDA people afraid to stand up and say it during budget hearings.

So, I would not shift as much to OMB as some would suggest.

The inertia problem that you touched on, of course, is the big problem and that is why I know Senator Muskie has insisted that we

do have a termination clause. You will notice that in my bill nothing can be increased. No program can be increased if zero-based review is not had, and it will be eliminated unless something affirmative is done.

The CHAIRMAN. Would you make that a point of order on the floor?

Mr. BLANCHARD. Yes, I think under the bill as it is now written if zero-based review has not been conducted one person can object to a resolution or bill that would increase an authorization for a program and he prevails.

The CHAIRMAN. Mrs. Holt, will you be able to return to question the witnesses or do you wish to question them now? We have a vote underway on extending the Federal Energy Administration. I am prepared to return because Mr. Emery has just arrived and has not had a chance to testify yet.

Mrs. HOLT. I will return.

The CHAIRMAN. We will stand in recess for 15 minutes.

Mr. Emery, we will be pleased to receive your statement and we invite the others to return so that we can question.

We will stand in recess for 15 minutes.

[Brief recess.]

The CHAIRMAN. We will come to order.

Mr. Blanchard, you were in the process of finishing your answer, which I would like to have you have an opportunity to do so. And then if Mr. Emery wants to give his statement, we will go to Mrs. Holt for her questions. Had you finished your answer?

Mr. BLANCHARD. I believe there was one thing I was going to mention. We were talking about the problem of coming to grips with ending programs already in existence, and how do you motivate the Congress to do that. And I mentioned the termination clauses as one of the ways, and one which I know Senator Muskie and myself to a great degree feel would work. But there is another thing, too.

Our bill requires related activities to be reviewed at the same time, programs which fit into the functional category, to be reviewed at the same time. And I think that is the best way to bring about the termination or a cutback in programs. Because if you are reviewing at one time 12 or 15 programs that are directed at about the same problem, it is a lot easier to get Members of Congress to, say, vote to keep 2 and eliminate 8. But if you are reviewing programs one at a time, and each program always seems to have a very worthy purpose, it is very difficult when you review one program in a vacuum, to abolish it, the single-shot attempt does not seem to work very well.

For example, if we are reviewing 12 programs designed to help in child nutrition, I don't think anybody would want to vote against the principle of better child nutrition. But if you have 12 programs at the same time which did with it, I think Members then have a chance to vote for one or two and abolish others or force consolidation.

The CHAIRMAN. What do you do about split committee jurisdiction?

Mr. BLANCHARD. That I think is the major mechanical problem that will have to be conquered in making this work. I assume it will vary between the Senate and the House. Our bill provides that the Budget Committee and the Appropriations Committee make the decisions as to which programs go into which functional categories with the assistance of the GAO, and then which committees have jurisdiction.

Obviously, that may rub some people or some committees the wrong way. But I think you do have to have a final decision source. I think it should be the Budget Committee, very honestly. But that is something that would be very difficult for this committee, I suppose, to suggest, without appearing to be making a power grab. And that is a very real problem, institutional problem, we are going to have to iron out.

I just think there ought to be a way and there can be a way. Rather than say we cannot make it work, we ought to say we have to make this work, and we have to try.

The CHAIRMAN. Mr. Emery, do you want to proceed with your statement? Then I want to turn to Mrs. Holt.

Mr. EMERY. With your permission, Mr. Chairman, I would like to yield for 1 minute to Congressman Lloyd, who has a time problem.

The CHAIRMAN. All right.

Mr. Lloyd.

Mr. LLOYD. Thank you, Mr. Chairman, and I thank my colleague for being so kind as to allow me to speak at this point.

You asked a question about double-track scheduling in Congress. My answer is we must go to a single track. There is no other way. You cannot have two bodies occupying the same space at the same time. Some of us may have problems even with a wider latitude than that. But it is an impossible task. It destroys the effectiveness of Congress. What we need to do is to set aside specific days. Maybe we need consideration of a 6-day week. I do not know what it is. Or 2½ days one way and 2½ days the other. Somewhere along the line—probably Tuesday and Wednesday, would go to legislative action on the floor, Monday, Thursday, and Friday perhaps could go to committee considerations.

In addition to that, I think all scheduling ought to go through an electronic device, such as a computer, which would give consideration to the problems the Members face.

The other item Members ought not to be on, generally speaking, more than one committee. I know that creates a terrible problem, because most of us enjoy the opportunity to participate in a multifaceted action.

You also asked a question, your second question, in essence, was, how do you stop programs already in operation when in fact these programs ought to be eliminated. It is very difficult—because it really asks the question, Just whose ox is being gored? And there are some very sacred oxen around here, and as such it is very difficult to attack those things.

However, I firmly believe that the mood of Congress has begun to change to the extent that they will give consideration to the basic changes that need to be done with regard to programs in operation which are not in essence of great value.

The other item you have alluded to since then is the multicommittee responsibilities with regard to specific programs, oversight functions. We just simply have to get down and say one committee has the responsibilities, and that is the way it is—if you really want to participate in those programs, we are going to have to get on to those committees.

What it really says is that no one person can do it all. And we are not going to have the fun and frolic of being involved in everything, we are not going to be all things to all people. If the Congress does that, we can more effectively serve the Nation and our constituency. If we do not, we will continue the chaos and frustration and the appearance, not only in the press, but otherwise, of total disorganization. And I do not think there is any necessity for it.

Thank you very much, Mr. Emery.

The CHAIRMAN. Mr. Emery.

STATEMENT OF HON. DAVID F. EMERY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MAINE

Mr. EMERY. Mr. Chairman, Mrs. Holt, my perspective is that of a former State legislator who has had the same questions before me during my 4 years in Augusta, Maine. I spoke before the Rules Committee the other day and gave a brief summary of some of the considerations that the Maine legislatures have met during the last 5 or 6 years. With your permission I will excerpt from some prepared remarks I have submitted for the record.

The CHAIRMAN. Without objection, your entire statement will appear in the record, Mr. Emery. You may proceed.

Mr. EMERY. During the years that I was in the State legislature, the State of Maine was faced with many of the same questions at the State level that are now being discussed in relation to the Federal budget.

The discussions of zero-based budgeting and sunset provisions arose as a result of the proposals by the State legislature that a thorough and comprehensive study of State programs be conducted by an independent group of businessmen, bankers, and other people with some expertise in business, financing, and administration. This program was initiated during the last year of Democratic Governor Kenneth M. Curtis' administration, and it was headed by James B. Longley, now the independent Governor of Maine. This indicates the political potential in governmental cost cutting.

The study was known as the Maine Management and Cost Survey. More than 40 volunteer business and labor leaders, people from various walks of life formed the study commission. Essentially, they reviewed existing programs, policies, and procedures of State government operations and attempted to analyze their effectiveness versus their cost in dollars, the same functions now included under the zero-based budgeting concept.

The ultimate result was a recommended cost reduction of approximately 11 percent. In other words, if all of the recommendations had either been implemented administratively, by executive order, or through legislation by the State legislature, the cost of operating State government could have been cut by more than 10 percent.

It is interesting to note that many candidates for State office, those especially running for Governor, talked a great deal about the possibilities for cutting back on expenditures and for preventing welfare fraud, but for some reason, no one was able to derive specific methods by which the savings were to take place. I think the success of the

survey recommendations was based not on a grandiose scheme for overhauling major programs at the top, but rather on mundane, practical, and seemingly insignificant changes made at the bottom, such as cutting back on the use of paper by having the Department of Fisheries and Wildlife bring both hunting and fishing licenses on the same form, or by consolidating the myriad State department reports into one volume, to list just a couple of examples.

A cost survey recommendation which was very controversial was to consolidate two or three campuses of the State university under the same leadership, thereby cutting down on bureaucracy and expenses.

I think the legislative and public reaction to many of the recommendations was typical. Obviously, when a person's own program was threatened, he was opposed to any changes, and a great hue and cry went up over all the jobs that would be cut back, while proposals to save money at the expense of someone else's program were often supported. I think this is the same problem we are going to face here in Congress.

The fact of the matter is if we really are serious about making our appropriations more efficient and effective, if we are looking for ways to cut back on unnecessary expenses and bureaucracy, we are going to have to do some things not generally popular within Government, but I think we will be surprised at the overall positive reaction by the electorate.

Eighty-three legislative proposals based directly on recommendations of the Maine Management and Cost Survey were presented to the Maine legislature. Of these, all but 27 were turned down—2 out of 3 went down the drain. When Governor Longley was campaigning as an independent, he used the defeats of his cost-saving measures as a major issue. Successfully, I might add.

Both Republican and Democratic incumbent legislators found that they had to continually defend their votes against certain pieces of legislation which came from the survey. The voters often ruled in favor of the survey measures, and there were quite a few changes in legislative seats made at the polls.

The strong public reaction was in favor of the cost-cutting concept. Since Governor Longley's term in office began, he has tried to follow the mandate of the people in his actions and proposals.

The bottom line is that the zero-based budgeting procedure is still under consideration in Maine and is still being debated by the legislative committees interested in this procedure. But by whatever name you wish to call it, zero-based budgeting came to Maine, on a one-shot basis, as the Maine Management and Cost Survey. The idea has since been proposed that the procedures used in the cost survey should be adopted as an on-going review of State governmental programs. Periodic review of functions, form, and result versus cost, is zero-based budgeting by whatever name you want to call it.

Zero-based budgeting is a concept whose time has come, and I am certain the next session of the Maine legislature will enact legislation and procedures that will enable the State government to adopt this approach.

Mr. Chairman, without reading further, I would like to comment that the reason I bring out the experience the State of Maine has had is that I can see the same evolutionary process developing here.

We recognize that we have severe problems with bureaucracy, inefficiency, overlapping of committee jurisdictions. We are well aware there are costs that can be saved in many programs that Congress has passed in the last 15 or 20 years. And we are now searching for a process and a method by which we can implement a more efficient system.

Without supporting all the specifics of the various proposals for zero-based budgeting, I certainly support the concept and I am in general agreement with the proposals that have been offered by my colleague from Michigan, Mr. Blanchard, and others.

If you have any questions about our experiences about Maine, and how I would tie that in with Federal Government programs, I would be very happy to answer them.

[The prepared statement of Representative Emery follows:]

PREPARED STATEMENT OF HON. DAVID F. EMERY, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF MAINE

Mr. Chairman, Members of the House Budget Committee, I am pleased to appear before your committee with regard to legislation to introduce the concept of zero-based budgeting to the Federal budget.

During the years that I was in the State Legislature, the State of Maine was faced with many of the same questions at the state level that are now being discussed in relation to the Federal budget.

The discussions of zero-based budgeting and Sunset provisions arose as a result of the proposals by the state legislature that a thorough and comprehensive study of state programs be conducted by an independent group of businessmen, bankers, and other people with some expertise in business, financing and administration. This program was initiated during the last year of Democratic Governor Kenneth M. Curtis' administration, and it was headed by James B. Longley, now the independent governor of Maine. This indicates the political potential in governmental cost cutting.

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The ultimate result was a recommended cost reduction of approximately 11 percent. In other words, if all of the recommendations had either been implemented administratively, by executive order, or through legislation by the State Legislature, the cost of operating State government could have been cut by more than 10 percent.

It is interesting to note that many candidates for State office, those especially running for Governor, talked a great deal about the possibilities for cutting back on expenditures and for preventing welfare fraud, but for some reason, no one was able to derive specific methods by which the savings were to take place. I think the success of the survey recommendations was based not on a grandiose scheme for overhauling major programs at the top, but rather on mundane, practical, and seemingly insignificant changes made at the bottom, such as cutting back on the use of paper by having the Department of Fisheries and Wildlife bring both hunting and fishing licenses on the same form, or by consolidating the myriad State Department reports into one volume, to list just a couple of examples.

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Zero-based budgeting is a concept whose time has come, and I am certain the next session of the Maine legislature will enact legislation and procedures that will enable the State government to adopt this approach. An interesting evolution has taken place since the beginning of the movement. I think the state has benefited from the discussions that the legislature has held. The process thus far has been marked by very strong cooperation between business and industry in the State, on one hand, and various individuals and institutions which have had some expertise, in financial management on the other. Most importantly, the general public has strongly supported the idea. But the lessons of Maine should not be lost on those who would reform government spending.

The message I have for this committee . . . for the regulatory reformers in Congress . . . for the Congress as a whole, is that we need Clyde Beettee or George the Lion Tamer if we are to accomplish regulatory reform. The hard realities we have learned in Maine are that we must be ready to battle the bureaucracy tooth and nail for every dollar we attempt to cut from their budgets.

The will (or instinct) for survival is just as strong in government as it is in the jungle. (As I have just testified).

The experience in Maine was that as soon as those areas of possible cost-saving were identified and targeted, the persons whose programs, projects, and even jobs were threatened lobbied so intensely that only 27 of some 83 legislative proposals were successful. There is absolutely no way of knowing how many legislative cost-saving proposals were sabotaged before they even saw a bill-writer's pen, or how many executive orders or administrative cost saving ideas to come out of this report were scuttled by a governor who was responsible for much of the obesity in government or by a bureaucracy which owed its existence to that same governor. Between 1966 and 1975, the eight-year term of the last governor, Maines' budget more than doubled.

In Maine the scenario was like this: the legislature created the Maine Management and Cost Survey Commission by legislation ordering a thorough look at the cost and operation of state government by teams of volunteer businessmen. These volunteers applied the same hard-nosed business practices to state government that are standard operating procedures in the successful, profitable businesses they came from. After many hours of interviews, research, study, and report-writing, these volunteer businessmen issued a report which detailed how ten to eleven percent of the annual state operating budget (in 1973 those savings were pegged at about \$29 million) could be realized through a series of recommendations in three categories: (1) those cost savings which could be implemented immediately by the department and agency heads themselves without higher order or approval; (2) those cost savings which would require executive order or fiat from the governor; and (3) those cost savings which could only be realized through legislative action.

Although the bureaucracy, the legislature, and the people whose ox was about to be gored were not impressed. I am happy to report that the most important constituency was: the taxpayers and voters were very impressed, and really, aren't they the ones who matter most!

When that document of recommendations was published, the enemy had been identified and he knew it. That is when the targeted agencies, and programs mobilized to assure their survival.

The message should be clear to us here in Congress: when we identify the areas to be cut, the persons directly affected and their sponsors and supporters in the executive branch as well as here in the legislative branch become the enemy and we must be prepared to overcome intensive lobbying pressures. There is nothing so easily conceived or so hard to kill as a government program.

Maine is still fighting those battles, as are the states which have adopted zero-based budgeting as law. Whether they succeed or fail will depend on how serious they are about making those painful decisions necessary to really cut the cost of government. But we have already gained from the lesson in Maine. In government, as in nature, the instinct of survival is fierce.

Thank you very much.

The CHAIRMAN. Thank you, Mr. Emery. In a moment we will turn the questioning to Mrs. Holt.

I notice Representative Fithian has arrived. We are very pleased you are here.

If you have a statement, we will place it in the record, and you may summarize it as well. Do you have a statement?

STATEMENT OF HON. FLOYD J. FITHIAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF INDIANA

Mr. FITHIAN. Yes, I do, Mr. Chairman. I believe it has been delivered to the committee.

I thank the committee for the opportunity to appear here.

The CHAIRMAN. Without objection, the statement will appear in full in the record.

Mr. FITHIAN. I might add that my delay in getting here in a way is symbolic of the problem we have around Congress. We just completed what I suppose was the last effort to terminate an agency which nobody will defend, but which nobody can find a replacement for; that is the Federal Energy Administration.

Now, I think this points out to us, if I may add to my prepared statement, the problems that we are faced with in this Government if we want to actually reduce the size of an agency.

It is my judgment that somewhere along the line, the correlation between efficiency and action lies in the number of desks at which papers must stop for decisions. We have entirely too many desks. We have entirely too much Government. In part this comes from the appetite of the American people for services. As you have said so aptly, everyone is against spending in general but nobody is against it in particular.

I think that it should be the responsibility of this Congress and its successors to deal squarely and fairly with the problem of too much Government regulation.

I know of no other way that the House of Representatives can address itself to this problem successfully if they do not address it through the power of the purse, that is, through this committee, the Budget Committee.

I am in support of the concept of zero-based budgeting, because I believe that it will bring accountability to a much higher degree than we have today.

A long time ago, Mr. Chairman, in the Truman administration, I believe, the Government commissioned the Hoover Commission to take a look at how we run the show here in Washington. Many fine recommendations came out of that efficiency panel, some of which were adopted, many, all too many, of which were not.

My point, I guess, is simply this: We are probably approaching a one-shot periodic thing if the thought of American people as expressed by their national candidates is any indication, for as we know the challenger to the President has made much hay on the issue that we have to streamline and modernize. The leading contender for the Democratic Presidential nomination has made a great deal of his commitment to somehow rationalize and make this machinery of Federal Government more efficient.

I would submit that in preparation for the outcome of this contest, we, in the Congress, give some very serious consideration to what our roles shall be.

Now, I believe our role will come down to that of determining the budget. I believe our role will come down to that of review of the activities of the various agencies on a regular basis.

I do not believe it is sufficient that we, as Members of Congress, merely debate and discuss an increase in a budget for a given agency. I think that it is necessary that the agency go back periodically—and I know this cannot be done every year—but periodically that each agency must defend and explain and justify its existence, in its entirety. That is, the very “raison d’être” of the agency ought to be called into question. It has to be done and if we do it at all, we cannot do it helter-skelter. I am working away trying to reduce regulatory agencies now. I have put a lot of time into the attempt to limit them. The Federal Energy Administration is one example of this.

But if we are going to do it on a rational basis with the comings and goings of 2-year Congresses, and the comings and goings of some Members who do not continue to register to vote here, then we are going to have to do it on a systematic basis. And I believe that zero-based budgeting in some form will do that for us, by forcing an agency to totally justify itself.

I would add to the concept of zero-based budgeting the concept that if an agency is unable to justify itself before the Congress, it simply should cease to exist. I think if we could accept that as a basic premise for Government, then we could solve what I believe—and I look at this as a historian, not as a long-time legislator—but I really believe, this country is faced with two or three very large problems. The largest single administrative problem that we have in my judgment, looking on as sort of an outsider, professional historian, who now is here for at least this term, is the problem of rationalizing and making more effective and more efficient, more accountable, and more responsive the Federal machinery.

If we laid out our 200 years’ existence on a linear scale, we would find our lives are regulated by many, many things. But if we looked at the origins of those regulations we would find the overwhelming majority of them have come in despite the creation of regulatory

agencies in the last quarter century. Probably 80 percent of everything that governs our lives, federally speaking, has been created in the last quarter of a century. Now we are growing at what statisticians call an exponential rate in terms of regulatory agencies, in terms of commissions, et cetera. And it is that problem I think, to which we must address ourselves.

I am not an economist, and we have some very fine economists working with this committee—and I think the Budget Committee is the greatest idea since 1921, 1922, when the Harding administration first came in with an idea of a budget—therefore, I look to this committee and to its staff, to the joint budget committee effort, as the one hope of solving the biggest administrative problem that we have, and that is the whole administrative section of the Government. Therefore, I am in support of zero-based budgeting and I am in support of Sunset bills on all newly created agencies, and I would support Sunset provisions for those already in existence.

I thank the chairman and Congresswoman Holt and members of the staff.

[The prepared statement of Representative Fithian follows:]

PREPARED STATEMENT OF HON. FLOYD J. FITHIAN, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF INDIANA

Mr. Chairman and members of the committee, I am grateful for the opportunity to appear before you briefly today to indicate my support for the Government Economy and Spending Reform Act of 1976. This "zero-base budgeting" bill may well be the key to reversing our trend toward proliferation of seemingly ineffective government programs—a trend which concerns us all. Moreover, this can provide us with the vehicle for demanding accountability of agencies and departments which all too often operate apart from public scrutiny.

Put simply, government has gotten too big and too far removed from the people. In attempting to control it and reduce its size, however, we face a problem of almost unbelievable proportions. Fully 14.6 million people work in all levels of government, with the cost of government estimated to be almost \$525 million. There are 1,250 federal advisory boards and commissions and more than 100,000 bureaucrats involved in the area of regulating business alone.

Government spending to support this top-heavy bureaucracy continues to rise. In the last quarter century—from 1950 to 1975—the gross national product increased by 465 percent. But in that same period, government spending increased by 753 percent.

To be sure, this increase stems in part from the appetite of the American people for more services, many of which can only be provided by the public sector. But I believe that we have gone too far. I think that a reversal of this trend is essential if we are to succeed in making our government better, not bigger, and if we are to restore citizen confidence in the ability of our government to meet today's challenges.

Too, we cannot expect the people to have confidence in that which they do not understand or which they cannot see. Too much of the bureaucratic structure of government is hidden from public view. We can begin to restore trust in government if we bring accountability to these agencies. I happen to believe that we could operate efficiently with about one-third of the federal bureaucratic structure lopped off. If the spotlight of Congressional attention is brought upon many of these agencies, I believe that many could not stand in the light of careful analysis and could not sufficiently justify their existence.

I see the Government Economy and Spending Reform Act as the cornerstone to a new approach to government. It can be the key element in our effort to reduce big government and bureaucratic over-reach and to restore accountability to government.

We must endeavor to regularly examine all federal programs and provide checks on how each department or agency is operating, how effectively it is doing its job and what improvements can be made. This bill would provide the mechanism for just that sort of review.

We must move to cut off funding for ineffective programs and agencies. We would have that opportunity in hand if we pass this bill.

We must look at new approaches to certain services and programs, such as transferring many of them to autonomous agencies run as a private business. This bill would provide us with a ready means of making those transfers. (As an example of an effective operation of this sort, we can look to COMSAT, which operates the international satellite communications system so successfully.)

Finally, if we are unwilling to totally eliminate certain bureaucracies, we should be ready to reduce financial outlays to the point where only those operations of the agencies which are really necessary survive. This bill would place bureaucracies in the public spotlight, forcing the accountability which could bring this to bear.

Some people would call this a get-tough approach to federal spending and bureaucracy. I say that it's about time.

Every day we hear from the people we represent throughout the United States, people who are frustrated with the growth of government and who are demanding that we do something about it. I think that they're right. We've all been talking about it this year—and I believe that in this bill, we are faced with a choice. Either we do something about government spending, or we just go on, mouthing irrelevancies while the people shout for action.

This is our opportunity. Mr. Chairman and members of this committee, I urge you not to pass it by. Let's have the Government Economy and Spending Reform Act of 1976 as a 200th birthday present for the American people, as a step toward reducing the size of our government and bringing it back to the people.

The CHAIRMAN. Thank you very much, Mr. Fithian.

Mrs. Holt.

Mrs. HOLT. Thank you, Mr. Chairman.

I was very pleased when we started these hearings. I thought we were going to wipe out the whole Federal Government, and start over at a zero base. But I guess that is too much to hope for.

I would like to commend all of you for your efforts. I think it is really great. I have been excited about our budget process, because I think we are pointing up some of the wrongdoing that has occurred here. And I think out of this can come some real reform.

But I think that you put your finger on the problem in answer to the chairman's question—it is the Congress that we need to start with. We have got to start here, or we are not going to be effective and we are not going to be able to do anything except react, in panic, to the problems that come before us. And that is what we do.

We see it right now in this House Administration thing. We are all running around saying we have to create this; we have to do something else. We don't stand still and try to defend what we have, and justify it, and make it more responsive to the people.

I think that is where we have got to start. And I hope that in the next Congress that we recognize this and that those of us who do come back will start an effort to really make some reform right here, in scheduling, in everything. That is the only way we are going to be effective in trying to cut the size of the Government in other areas.

There is one other problem that bothers me; that is, how do you set standards for agencies? How are we going to do that? Are we going to write into the legislation, in the reports, or the bills, what they have to do, how they have to perform? I have not looked at your legislation. How do you think we handle that?

Mr. BLANCHARD. The bill sets forth some very broad categories of review of programs which require at the very least, when a committee reviews a program, asking some very tough questions which will vary, I think, between programs. But questions such as, is the program

working, is it being duplicated, could it work for less money, or does it need substantially more? Or in fact would no amount of money make what is a good idea workable?

I found as an assistant attorney general in Michigan, in the executive branch—of course, there is a big difference between a good idea and making it a good government program, and beyond that making it work, and beyond that having the right people to make it work, and then beyond that funding it properly.

As a Democrat, and I think as a progressive, I guess I sincerely believe that an awful lot of good ideas, that all of us support, are not workable in real life. And perhaps that has been an awakening over the last few years.

But each program is going to have to be looked at a little differently. And I think a review process perhaps will force Congress to be more specific when it enacts programs, which I think is one of the major problems.

I serve on the Housing Subcommittee, for example, in Banking Currency and Housing, and there is hardly a housing bill—and we have I think about 58 different Federal housing programs—but there is hardly one that wasn't enacted with a coalition of forces, each of which had its own conception of what should be done.

So it is very difficult, with the vague statute for the rule writers, who have been given too much power, in my opinion, to know what to do. So they finally just do what they think makes sense, or what they think the coalition of supporters would expect. And then all of a sudden we have a great disagreement. I think a review process will force us as we are legislating to be more specific on what our goals and the mechanisms to achieve those goals are, which is long overdue. And I have a feeling you would agree.

One other thing I was going to mention, but it slipped my mind. So I will defer.

Mrs. HOLT. You do feel we should be more specific in our legislation, spelling out goals and purposes more clearly?

Mr. BLANCHARD. For example—in reviewing programs, too, I think we are going to have to take a different view. I think it would be a lot easier to measure the effectiveness, for example, of social security or the administration of it by determining the proper level of payment, cranking into the computer with the address of someone or mailing out the checks, or measuring the effectiveness of building a road from A to B or B to C. But when you start talking about what the purpose of the Equal Educational Opportunity Act is, or an Urban Development Act is, and what our goals are, it really becomes tough. I would not presume to have the answer as to how you measure human services. That is going to be very difficult to do.

For example, in civil rights, in an area I know you are familiar with, and I am, too. One justification could be, well, that the Justice Department Civil Rights Division has made enormous progress since they filed 150 lawsuits. Well, that may mean they failed 150 times. They may not have conciliated enough. It depends on how you look at it.

The human service measurements and evaluations in zero-based reviews will be the very toughest. If our structure is too rigid, our process is too rigid in analyzing those, we are probably going to be

doomed to failure, because people will get fed up with the processes and feel their pet programs are being picked on. We need a structure that all of us, you and me and all of our colleagues, can agree on at the outset, and have it flexible enough to analyze each program and the related programs.

Mrs. HOLT. Don't you think it would be helpful, too, if we as legislators would somehow or other change the image that we have managed to create, that we have to be here filing bills, creating programs, always doing more things while we are in session? I think this is something that I have seen in my district. People expect you to be here doing things. We hear questions such as: "How many bills have you introduced this year;" or "How many bills have you gotten passed," regardless of whether that is effective or worthwhile. They don't ask how many programs you have been able to bring under control. And I think that is our fault, that we have fostered that image, furthered that concept.

I have no further questions.

Mr. BLANCHARD. I agree with you.

I think the zero-based review approach will more than likely force us to improve and modify existing programs, because of the workload, rather than jump on new programs that create a parallel mechanism to deal with something which could properly be done by correcting an existing program.

I myself haven't sponsored too many bills, and one of them is this one. I have had a lot of people wonder why. I just tell them I have one that will touch them all.

Mrs. HOLT. I commend you.

Mr. FITHIAN. If I may add this comment: I think as we deal with this problem, however it is dealt with, and I am cosponsoring this bill and in strong support of it, and its concepts, I think if we recognize and do what some of the Members are doing, and that is just dropping in on some of the agencies and talking to the middle level executives of the agency, and asking them what they are doing, and finding out what is actually going on, we would learn a lot. There are some very, very interesting stories coming out of that which I will not now take the time of the committee to relate. But I think it is almost a truism that every agency, every executive body, would like to become more autonomous. They do not like to be reviewed, first. Second, they would like to grow. I think it is rare, isn't it, that an agency comes in and asks for less money than it asked for last year. And so when the chairman starts talking about bringing our budget into some rational alinement with our income, that is one of the fundamental problems. We have to say no to some agencies who always want to increase their budget. They would like to not only increase their budget, but if possible, they would like to be exempted from any annual review or coming back for authorizations.

And I think in the face of the sort of the Parkinson's law, whatever, of the agency mentality, and what we are pushing for, or what we seem to be pushing for, that we are going to have to be the body that says what we want, and then insures that that is what we are getting.

I agree with the gentlewoman—perhaps we would do better to spend a third of our time around here reviewing what we have done, and making it work better, than creating anew.

There has been, since the early 1930's, a tendency that if we have a problem, we create a budget for it and an agency to do something with it. And I doubt—I may be wrong, Mr. Chairman—but I doubt that we have ever taken the functions of the administrative branch, applied them to a computer, and run some test runs to see how many agencies work on the same problem.

We only recently ran into this, in one or two areas, where we discovered a direct duplication of effort. And I think that when you get all of this duplication, you just get less efficient government.

And so I do not think this bill is going to be the be-all and the end-all, that it will solve all the problems. It is a step in the right direction. I think it is a reorientation of the Congress and therefore I think it is a seminal piece of legislation.

The CHAIRMAN. Thank you, Mrs. Holt. I have one final question before recessing the hearing until July, so that the staff and others can review today's testimony. At that time, we can proceed with an additional set of witnesses.

I am concerned about the trigger mechanism. Mr. Emery mentioned that the State of Maine used a commission which recommended a method for instituting their new budget system. The bill itself recommends a rather procrustean approach of taking so many functions, automatically terminating them, and then requiring review.

All of these are directed toward shifting the inertia, as Mr. Blanchard put it, and making somebody justify their program. This requires passage of a bill. I would like to know if you have a suggestion as to how the Congress should set up their order for zero-based reviews.

Mr. BLANCHARD. I took Senator Muskie's suggestion on the order of review, Mr. Chairman, deferring to his wisdom and knowledge and expertise as chairman of your counterpart committee in the Senate. But I altered it in a couple of instances.

Whatever review process that is selected I think has to be designed so that the membership of one philosophical or party persuasion or another does not feel its programs are targeted first for review.

There has to be some way to begin the process, so that all of the membership feels that it has a crack at everyone else's pet programs, while their pet programs are also being analyzed.

If we were to simply start out and analyze national defense, leaving out areas of welfare, we immediately have a battle between traditional and conservatives and liberals, and more than likely Democrats and Republicans. And it dooms the process to failure.

So I think we have to have a process which will be viewed functionally as fair and unbiased.

I recommended a pilot in my initial bill, which I called "Truth in Budgeting," last July—a pilot study before we try to swing into the process, where we might select a couple of agencies that the Members in their wisdom would feel would be representative, not biased, to run a trial run on before we went into the process.

The CHAIRMAN. Would you take a department, such as HEW for your pilot project, or are you talking about taking a group, such as GAO, and have them select a place for the pilot project?

Mr. BLANCHARD. My first bill set up 1 year for the GAO and the Congressional Budget Office to figure out mechanically how this could

work best. And then in the second year they would run a pilot. My suggestion would be that we might take a division within HEW, and a division within DOD, and do a pilot, applying it to those two divisions. And then swing into the process, assuming that it works well.

Now, I think Senator Muskie—again, he has more experience than I have at this obviously. His fear is if we try a pilot, we will get bogged down in fights over whether we have selected the pilot in a fair process, and it will be a good way to put off the full adoption of zero-based budgeting and Sunset laws, and possibly sidetrack the whole movement, never to recover. And I think that is a point well taken. That is why I did not provide a pilot in the companion bill that I introduced.

But I think it ought to be carefully considered, definitely.

The CHAIRMAN. I thank all of you very much for appearing today.

I believe the process is necessary. The experience we are going through this year indicates there must be some review of the so-called mandatory spending programs, and those which have long leadtimes. It is clear that too small a portion of the budget is annually reviewed.

I appreciate very much your statements this morning.

The task force will stand at recess subject to the call of the Chair, when we will continue these hearings in July.

[The following prepared statements were submitted for the record:]

PREPARED STATEMENT OF HON. JACK KEMP, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF NEW YORK

Mr. Chairman and Members of the Task Force, I first wish to express my appreciation to the Budget Process Task Force, its Chairman, and its Members for holding these important public hearings.

I think we were all aware, when we passed the Congressional Budget Act, not only that the role of Congress would grow with respect to preparing the budget but also that we would have to refine constantly the process by which we examine the budget and the nature of the activities for which we are budgeting tax and borrowed dollars. Consideration of enacting a mandatory review of all Federal activities is certainly consistent with that awareness, and requiring such a review is consistent with the commitments of Congress to the taxpayers and to itself, expressed repeatedly when we passed the Congressional Budget Act, to come to grips with the growth of the budget and the increased taxes and increased borrowing required to meet obligations and with the impact of this growth on our institutions and way of life. These hearings are an important step to living up to these commitments.

ECONOMY IN GOVERNMENT AND SPENDING REFORM ACT OF 1976

On May 11 of this year, I introduced H.R. 13699, the proposed Economy in Government and Spending Reform Act of 1976. This legislation would do a number of important things:

First, it provides for the elimination of inactive and overlapping Federal programs.

Second, it requires authorizations of new budget authority for programs and activities at least every four years, and no authorization could be for longer than four years.

Third, it mandates a procedure for zero-base review and evaluation of programs and activities, again on a four-year cycle, assuring that each program and activity either rejustify itself to the satisfaction of the Congress or be eliminated.

Fourth, it requires a consolidate financial statement for each fiscal year based on an accrual system of accounting, in order that we know exactly to what we are obligating ourselves in dollar terms each year, not just to what we are actually paying out in each year, as it is presently.

Fifth, it requires disclosure of the projected costs and savings of actions proposed through bills and joint resolutions of the Congress at the time of their introduction.

This legislation differs from the other zero-base measures which have been introduced in several instances. As I just indicated, the bill requires a consolidated financial statement for each fiscal year based on accrual accounting practices and requires disclosure of the projected costs and savings of actions proposed through bills and joint resolutions at the time of their introduction. To my knowledge, these relevant and consistent provisions are not found in any other bills being considered. The legislation differs in another instance also, and it is a major one.

Most of the bills which have been introduced in this subject area exempt all or most transfer-payment and trust fund programs. I think this is a serious mistake, one which must be rectified. Trust fund and transfer-payment programs have burgeoned in recent years, becoming an increasingly greater percentage of combined budget and off-budget obligations and expenditures. The Office of Management and Budget has concluded that if you take the transfer-payment growth for the past two decades—it is about 9-percent per year—and continue it, by the year 2000, 50-percent of the people will be living off the other 50-percent, the hard-earned income of the latter being transferred through taxes and inflation to the former, from the more productive elements of our society to the less productive. We just cannot continue at this trend level without reaching a point in the near future, when the productive people decide there are no longer sufficient reasons to continue to work long and hard, when others work little or not at all but are able to enjoy the same standard of living by virtue of government assistance programs. Unless Congress does address itself on some systematic basis to the growth in transfer-payment programs, I believe what I have just described will be an inevitability. I will return to this point in a moment, but I do hope the Committee on the Budget will require trust fund and transfer-payment programs to be reviewed on a four-year cycle.

THE IMPORTANCE OF MANDATORY REVIEW AND LIMITATIONS ON AUTHORIZATIONS AND NEW BUDGET AUTHORITY

Statutes requiring zero-base budgeting and mandatory reviews associated with it are known as "sunset laws." Sunset laws have already been enacted by some of the States, and a number of measures have been introduced in the Congress to require it at the Federal level. These measures are called sunset laws because of the procedure they set forth. A program, an activity, an agency put in place to administer a program or activity, and a bureaucracy to sustain it—the sun sets, so to speak, upon each of these unless they are rejustified and reauthorized in a specific time frame. Instead of a program or activity being continued and funded year after year—for no obvious reason than the fact that it existed during the prior year—these sunset laws establish a mechanism to force a reexamination of the value of the program or activity.

A sunset law gives us an opportunity, therefore, to eliminate or reform programs and activities, to reduce costs to the taxpayers, to reduce the number of government workers or to reassign them to more productive tasks, to enhance efficiency and reduce redtape by combining otherwise duplicating functions, and even to more carefully examine programs before they become law in the first place.

Theoretically, we could do what the sunset law would require us to do without having such a law on the books. But, the experience of recent decades shows rather conclusively that we have not done these things sufficiently without such a law, and there is no reason to believe that we will in the future without it. Government expenditures, borrowing, programs, departments and agencies, and civilian personnel continue upwardly. Programs and functions duplicate one another, and the duplications are left unresolved. Other programs and functions actually conflict with one another, and they too are left unresolved. It is far too easy, given the tremendous pressures of time and the divergence of interest among Members of Congress, to put off from one Session to another a thorough review of a program or agency and the preparation of remedial legislation. Congressmen are no different from others, in that it is sometimes if not often easier to wait until tomorrow to do that which ought to have been done today. This is why we need a sunset law to require us to conform to a preestablished schedule. We imposed such a requirement upon ourselves in the Budget Control Act, and it is working very well. We ought to impose a similar requirement upon ourselves with respect to mandatory reviews, limitations on new authorizations, etc.

Sunset laws alone will not do all that is necessary to bring Government under more effective control of the legislative branch—the First Branch of Government

in our Constitutional system. Government will not be brought back into its rightful role—that of servant to the people instead of their master—until a change in attitude about the role of Government in relation to society as a whole takes effect and is felt in the legislative chambers. But, the sunset laws are, beyond question, very important steps in the right direction.

THE WAY GOVERNMENT FUNCTIONS TODAY

The significance of putting these procedures into place cannot be overstated. These procedures stand in marked contrast with the way government functions today, and there can be little doubt but that the Federal Government is virtually out of control.

It continues to accumulate power over our lives—and to exercise it.

It spends more money in every year that goes by, and it persists in mortgaging our future by deficit financing much of that spending.

It continues to grow out of proportion to the rest of society.

It willingly—forcefully, if need be—assumes responsibilities which previously rested with the people.

Its rules and regulations have grown so cumbersome as to tie down almost any decisionmaking into a bundle of redtape.

And, if all of these things are not bad enough, consider the reality that neither the Congress nor the Administrations, today's or yesterday's with respect to both, have dealt effectively with the problem.

In far too many instances, the Congress has become captive of the Government workers who advocate a continuation or expansion of their own programs, budgets and agencies, and of the special interests which threaten retaliation at the voting booths in the next election unless their projects are kept going or new ones started, no matter what the effects on the common good, the general welfare, the general interest.

In far too many instances, the elected heads of the Government—the President and the Vice President—and the appointed and confirmed heads of the departments and agencies and their policy-oriented assistants have become little more than spokesmen for the bureaucracy below them, responding more to what the bureaucrats think should be the administration's program than to what the people think should be such a program. This process is known among public policy analysts and administrators as "marrying the natives," a term which comes to political science from the British colonial experience, where Englishmen sent to distant lands to reflect British policy would soon reverse their roles and start reflecting the attitudes of the colonials to the government in London. In the modern era and in our more recent experiences, we can see just how this has been turned upside down. I wish we had more administrators today that reflected the will of the people instead of the will of the government. Now, instead of the "natives" being the colonials, the "natives" with which most or far too many top administrators ally themselves are the bureaucrats. But the common denominator remains the same: allying oneself as an administrator with interests other than those with which one ought to have made alliance.

GOVERNMENT TODAY IS INCREASINGLY ACTING IN ITS OWN INTEREST AND NOT IN THE PEOPLES'

The effects of all of this have become obvious. Inefficiency in government has become the norm instead of the exception. So has delay. Confused as to both purpose and means, government alternates erratically between doing too much and doing too little. And all the election mandates notwithstanding, the same general policies remain in effect, carried out day to day in the intermediate and lower echelons of the departments and agencies, no matter what may or may not be being said at the upper levels, in support of or in opposition to the existing policies. In sum—and I believe this is the question to which the reforms now being proposed ultimately turn—government in America today increasingly acts in its own interest and not in the interest of the people whose purpose it ought to be to serve.

We see more clearly every day that the vision of the Government in Washington as a benevolent, grandfather-image Uncle Sam—acting always in the best interest of the people—is out of touch with the reality of a government there increasingly serving its own ends. When government reaches the point that it is more to be tolerated than to be supported, something is wrong with the relationship between the people and government—regarding their relative positions as to which is the master and which is the servant.

Through the enactment of a multitude of program activities, Government has taken unto itself the exercise of functions once regarded as the province of private conduct. And, whether one regards a specific Government intervention or influence as good or bad, one still ought to weigh the impact of the totality of extensive and still growing Government regulation over the exercise of personal freedom.

Unfortunately, this process of rapid and substantial growth of Government is not diminishing. It is not even slowing.

As Members of this Task Force and Committee are well aware, Federal budget outlays have doubled in the six years in which I have been in the Congress, as has also the public debt. The Federal budget for fiscal year 1977 will be \$413.3 billion, if the outlays limit in the first concurrent resolution on the budget is not pushed upward. This is \$129+ billion over the budget only two years ago.

The mushrooming public debt has been authorized to go up to \$700 billion through September 30, 1977—over two-thirds of a trillion dollars—pushing the percentage of total taxes and total borrowing, in relation to gross national product from 14.88-percent in 1950 to 21.65-percent in 1975, an amazing jump with profound potential impact on our society.

The average amount of taxes the Federal Government will have to collect from every man, woman, and child in the Nation to meet expenses this year is about \$1750—or \$7000 for the average family of four. Of course, because deficit financing is a principal source of financing Federal programs today, the Federal Government will actually collect in taxes an average of about \$1415 for every man, woman, and child—or \$5660 for that family of four. The remainder will be taken from them, of course, in decreased purchasing power—inflation arising from monetizing the deficit.

Look at the bureaucracy which this spending and borrowing sustains. Between 1789 and 1974, the population of our country multiplied by 60 times. The bureaucracy multiplied by 8170 times. Between 1930 and 1976, while the population grew 71-percent, the bureaucracy grew by 462-percent. In our national work force of about 85 million, 1 out of every 6½ employees is on a Government payroll of one form or another.

Look at the controls over our lives—and our economy—which this funding and this bureaucracy sustain. The United States Code Annotated, the basic compilation of congressionally enacted statutes, now totals more than 55,000 pages. The Code of Federal Regulations—consisting of the rules and regulations which carry those statutes into effect and which have the same full force of law—totals hundreds of thousands of pages. The Internal Revenue Code—the tax laws under which we all live—is now nearly 1900 pages long, and the regulations which carry those tax laws into effect constitute another 4500 pages. In addition, one is governed by the rulings and regulations of a myriad of Federal agencies, bureaus, departments, commissions, administrations, offices, and boards, not always reflected through the CFR, as well as the rulings of our vast court network.

WHY THE BUREAUCRACY GROWS AND GROWS

Why has there been such an inordinate growth in government in recent years?

There are many reasons for this growth. For example, the general interest has been repeatedly forced to yield to an ever increasing number of special interests. Members of Congress, wishing to enact new and larger programs which would be subject to their partial control through the committee process, have contributed to this growth. We have the prevalent attitude among policy makers in recent years that government ought to assume a greater role in planning and then governing our lives, an attitude which finds its way into both approaches to problem solving and specific legislation. There are many other reasons too.

But there is a reason for the growth of government which relates specifically to the bills now before us. It is the inherent characteristic of government to grow—unless held into line by measures such as we are discussing today. The best way to look at the “inherent” characteristic of this growth is to contrast motivations in the private and public sectors.

The free enterprise economy—the economy of the private sector—dictates that waste and duplication be guarded against. In such an economy it is in a person's self-interest to serve the interest of others. In order to gain access to material goods, and thus satisfy his own wants and needs, a person must first earn income by supplying in a market something which is valued by other people. This individual must of necessity consider the wants and needs of others. This is the way to assure the greatest growth in the common good too, for the best way to

promote the welfare of all the people is to allow people the maximum amount of personal liberty, individual action, and freedom of enterprise.

These self-interests do not stop in a person when he assumes a position in government. The market restraints which channeled that self-interest to the benefit of society do stop, however. Without these market restraints, the pursuit of self-interest can become identified too readily with those of government, or one of its departments or agencies, or one's own position within it. For example, a problem solved is one less from which to justify increases in statutory or regulatory power and agency authority, and one less from which to justify more funds and staff slots in the budget and management process. In a government of fiercely vying interests among departments and agencies for percentages of overall employee slots and funds, the greater the likelihood of getting them if you have more and more to do—year after year. The best way to assure this, of course, is to constantly add to the workload. And the best way to do that is to finish less and less. Delay is the best way to do it. This observation is not to cast a blanket aspersion on all government employee's conduct, for this is often an unconscious process. But the consequences are the same, and I think we would be burying our own heads in the sand, if we said that any department or agency in this town has it as its goal to solve the problems with which it is working as soon as possible, so that it might then be able to go out of business and save the taxpayers millions or even billions of dollars.

GROWING AWARENESS OF PROBLEM WILL MAKE ITS RESOLUTION BY CONGRESS MORE POSSIBLE

I am encouraged by a rapidly growing awareness of the problem of government grown too big. A better understanding of the problem will lead to attempts to deal with it.

What is most encouraging of all to me, however, is the way in which efforts to deal with the problem of how to control government's size and activities cut across—as they should and must—the traditional separations of political party and philosophy. Both Republicans and Democrats are at the forefront of this issue, as are liberals, moderates, and conservatives. It cannot be overlooked either that the principle Senate bill, S. 2925, was introduced by Senator Muskie, the Democratic Party's nominee for Vice President in 1968 and an acknowledged spokesman for liberal forces in our country, and was cosponsored by Senator Goldwater of Arizona, the Republican Party's candidate for President in 1964 and an acknowledged spokesman for conservative causes in our country. Nor can we overlook the embracing of sunset law principles by candidates for President in both parties during this Spring's primaries and state conventions.

But, the battle is far from won. I think we must realize that we are a long way from sunset bills becoming sunset laws. We have not forgotten the substantial opposition to the Congressional Budget Act, as it wound its way through the legislative process in 1973 and 1974. We should not assume that this next logical step—enacting sunset laws—will be without opposition too. Since I introduced H.R. 13699 on May 11, I have received letters from different special interests, saying in effect “require mandatory review if you must—but not of our programs, just those of others.” I assume there might be opposition from some in committee leadership positions. There certainly will be opposition from the departments and agencies.

My point in bringing these matters up at this point is to caution the Task Force and the Committee against yielding to the line of argument that exemptions from mandatory review and four-year cycles ought to be written into the law. My fear is that we will have a general policy which is automatically frustrated by a myriad of exceptions, and I foresee the most enticing exception being that of trust funds and transfer payments. I would like, therefore, to return to this point for a few moments.

TRUST FUNDS AND TRANSFER PAYMENTS SHOULD NOT BE EXEMPTED

As I indicated at the beginning of my testimony, some of the sunset bills which have been introduced would exclude trust funds and other types of transfer-payment programs. This would be a mistake.

As long as income transfers are soundly financed, few problems arise. Few would deny that in both a social and economic sense it is good to have cushions against unemployment or old age or whatever, and it is not unreasonable to expect government to organize this kind of protection. Limiting the scale however is economically crucial.

The essential political fact is that it is popular to receive an income transfer but unpopular to be the donor. When there are large groups of voters in both categories, as there are now, a legislative body becomes tempted to try to satisfy both donor and donee, the one from which the money is taken and the one to which it is given. The Congress has consistently legislated additional benefits, therefore, without legislating sufficient taxes to cover them.

Only one thing can happen when this occurs, and it has and continues to happen. The tax is levied in another way—by inflation. And this becomes a vicious cycle. At first, the Congress satisfies both constituencies, but inflation creates demands for greater transfers. At the same time it moves wage earners into ever higher tax brackets, increasing their effective tax rates. The result of this rising combination of inflation and taxation is to eat away at the nation's savings and thus its capacity to invest, create jobs, develop new technology and improve the overall standard of living. Job losses then create still more income transfer demand.

This is a little bit like using up all your savings and credit just to keep going, without making any provision for the future. The future, at the moment, is not all that bright in terms of fully stabilizing the dollar and the economy, and it will not be made any brighter by our failure to put income transfer demands on the same basis as all other demands upon the budget. The emphasis has been too much on the social dangers of having too little income transfer and not enough on the very real social dangers of having too much. The entire productive sector of society can become alienated and demoralized through seeing savings and capital destroyed by inflation and through a sense of the unfairness of government policies that allow this to happen.

Whether Congress decides to increase or to restrain income transfer programs, those funded through trust funds and those funded out of general revenue, the Congress ought to make that decision on the same par with all other program decisions. The only way that can be done, if we enact a sunset law, is to resist efforts to provide an exemption for these programs, and I hope the Committee will recommend against any such exemption.

CONTINUED BUDGET REFORM IS ESSENTIAL

I hope that the consideration of—and hopefully the adoption of—these sunset law proposals will facilitate a movement within the Congress to restore a more rational balance between the role of Government and the role of the private sector. Whether one's viewpoint is that we should undertake these reforms to cut drastically the size of government or whether one's viewpoint is that it is the only way to assure more effective Government exercise of its responsibilities, a Federal sunset law should be adopted and as soon as possible.

PREPARED STATEMENT OF HON. RONALD A. SARASIN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CONNECTICUT

Mr. CHAIRMAN. I appreciate the opportunity to discuss issues relating to regulatory reform and zero-based budgeting. The question of regulatory reform is one of meaningful, coordinated and visible oversight of various federal agencies by Congress.

In America's modern industrial economy, the basic feature of economic and welfare regulation is that it is administrative regulation. However, it is often the case that executive agencies charged with administering the laws, do not follow Congressional mandates. The growth of the federal bureaucracy has led to mistakes in regulatory practice and policy. This has resulted in a confusing overlap of authority among agencies, duplication of programs and ineffective implementation of laws. There is little doubt that government intervention in many spheres of economic and social activity is necessary to achieve accepted public goals. The question we must address is how to maintain the capability of these agencies to adapt to economic, technological and social changes.

The unprecedented growth of various regulatory programs has resulted in the necessity of examining the effectiveness and administrative capacity of the agencies charged with their execution. Many ways of accomplishing this have been set forward. One of these is the concept of zero-based budgeting which would provide a mechanism for the continuous monitoring and review of governmental regulation and policy. Through periodic review of budget priorities, programs which have become non-essential can be deleted at a savings to the American taxpayer.

Zero-based budgeting, as we are aware, would determine the impact of eliminating governmental programs based on the effect of incremental increases in an agency's budget. Although zero-based review would enhance congressional awareness of various spending alternatives and is compatible with the new budget process established in the 1974 Budget Control and Impoundment Act, we cannot confine our review to spending programs alone. We must take a broader perspective and look at all programs simultaneously within a particular budget function. In this manner it becomes easier to see where overlaps occur and what extraneous programs or agencies can be eliminated or cut back without sacrificing needed social services or economic controls.

Whenever a new national problem arises, a new federal program or agency is quickly established to address it. Because solutions must be found rapidly, new policies or organizations are created without sufficient attention to the indirect economic effect or to the overlap and duplication which may result. What is created as a temporary solution has tended to become permanent programs even after the loss of the original justification for existence.

This, too, is a primary cause of uncoordinated and duplicative government programs and agencies. If government is to remain responsive to new problems, we cannot allow ourselves to become entangled in a quagmire of old or outmoded regulations and agencies which may exacerbate rather than solve existing problems. Periodic review of the budgets of these agencies will, in my opinion, help them to remain more fluid and responsive to economic and social needs.

It is clearly the responsibility of Congress to reestablish its prerogatives in the mandates which it sends to the executive agencies and to set national priorities in the solution of these problems so that they are executed in a balanced fashion.

Our purpose is to improve government performance and efficiency and to make government more responsive to the public interest and to provide balance between economic and social priorities. The process which we are considering, zero-based budgeting, seems to be an excellent avenue for overcoming governmental inertia toward re-evaluating and reauthorizing programs. Our reactions to such re-authorizations have become too automatic. A mechanism such as zero-based budgeting will force us to look objectively at budget and social criteria without reacting ad hominem to the arguments of agency bureaucrats who have become captive of their own actions to justify the existence of the agency they represent.

We address this question because we wish to solve the problem of mindless growth of government bureaucracy and to control growth in spending. In our attempts to solve the problems of the people, we have created mega-agencies which often act to obscure problems rather than clarify and alleviate them.

Zero-based budgeting, as a method of regulatory reform, can work to help us maintain the flexibility we need to adapt to economic, technological and social changes.

PREPARED STATEMENT OF HON. NORMAN D'AMOURS, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF NEW HAMPSHIRE

Mr. Chairman, I welcome the opportunity to submit testimony today on zero-base budgeting, a concept whose time is long overdue.

The budgeting process as it exists today promotes incremental budgetary growth. Budgetors haggle over the size of an agency's increase, but their attention is shifted away from previously funded programs. Instead of reexamining current activities, programs are funded and refunded, almost automatically. Existing funding levels are accepted as "given" and the budget grows with these "given" as its base. This method of budgeting fosters duplication and ever increasing budgetary outlays.

Under a system of zero-base budgeting, agencies would undergo a periodic complete and fundamental evaluation by both the Congress and the Executive branch. A zero-base evaluation focusses on the impact of cutting off funds for a particular program (or funding it at zero), as well as reviewing alternative approaches to a program's goals and objectives.

Integral to the zero-base budgeting concept is evaluation based upon the comparison of packages of information about each program. These packages, frequently referred to as "decision packages," contain five pieces of essential information.

(1) The goals and objectives—an isolation and clarification of the problems that the program is designed to solve.

(2) The implications of cancellation—Who would be hurt and how badly if the program were cancelled?

(3) Measures of performance—How effective has the program been?

(4) Funding alternatives—What new ways of approaching the problem have been devised? Is there a viable alternative which has been overlooked or wasn't previously available?

(5) A cost/benefit analysis—a chance to weigh the price tag of every project against its actual returns.

Implementation of this concept would be beneficial for the following reasons. First, at the heart of zero-base budgeting lies its fundamentally new approach to looking at the budget. Instead of using the previous budget as the base, zero-base budgeting resets the base at zero to determine if the merits of the program support its continued funding. No longer would last year's appropriations be considered unalterable. No longer would a program be funded in 1 year simply because it was funded in the last. Bureaucrats would be forced to justify continued public investment in all of their projects and programs.

Second, the "decision packages" process mandates the simultaneous review of programs serving the same or similar functions. The advantage here is two-fold:

(A) Not only would this simultaneous review apply to similar programs within an agency, it would also apply to the myriad of similar programs promoted by a number of different agencies. "Decision packages" would bridge the gap between these agencies and duplication could be halted at the source.

(B) Each "decision package" would be considered on its own merits, regardless of its status as either an on-going or a new activity. Effective and efficient programs would be assured continued funding, innovative and improved programs would be assured initial funding, and outdated and/or outmoded programs would no longer be allowed to siphon off funds that are badly needed elsewhere.

Third, the "decision packages" process facilitates review of programs and alternatives on the basis of their effectiveness at different levels of spending; all in terms of cost/benefit analyses. This review, although probably one of the most difficult aspects of a zero-base analysis, is also probably one of the most important. A program's effectiveness could be analyzed at 70 percent of its current level of spending and, in separate "decision packages," at additional levels of spending. If it turns out, for instance, that 30 percent of the total funds for a program are required to combat the final 5 percent of a problem, perhaps this 30 percent could be better spent on different programs. If, on the other hand, only one level of spending were analyzed, most likely reflecting the funding level desired by those responsible for the administration of the program, budgetors would be forced to make a simple yes/no decision on the funding request, any alteration would be based on insufficient information. The "decision packages" method promotes this type of structural reorganization in reviewing the budgetary process and the end result is a vastly improved method of comparing governmental outlays to program effectiveness.

Zero-base budgeting provides the added benefit of bringing clarification to all of aspects of government expenditures. This clarification is valuable not only to the budgetors and to the taxpayers, but also to the administrators and the staff who gain clear-cut and comprehensive details of all of the workings within their agency.

I would be the first to acknowledge the expanded workload required to gain a truly adequate review of all of our expenditures, but this is only a reflection of the inadequacy of our present system of review. It is because our present system merely reviews budgetary increases that it is not equipped to review the budget in its entirety. Zero-base budgeting would help to promote a complete review, and the expanded workload would be well worth the added hours.

Zero-base budgeting will not solve all of our Nation's budgeting problems, but it is a sound fiscal tool, one that our Government sorely needs. Zero-base budgeting is a large step in the direction of saving tax dollars wisely.

I thank you again for the opportunity to make this statement and I look to this task force to report definitive legislation in this area.

PREPARED STATEMENT OF HON. G. WILLIAM WHITEHURST, A REPRESENTATIVE
IN CONGRESS FROM THE STATE OF VIRGINIA

Mr. Chairman and members of the Task Force, I appreciate very much having this opportunity to express my strong support for the Government Economy and Spending Reform Act of 1976 (H.R. 11734). This piece of legislation, which is

designed to significantly improve the responsiveness and effectiveness of government, is one of the most important bills to be considered this session and I urge my colleagues to act thoroughly but expeditiously on its behalf.

The past several decades have brought a seemingly endless expansion of the role of the federal government. Today there are over 1000 aid programs to the states and localities. Included in these are 228 health programs, 156 income security programs, 83 housing programs, and the list goes on and on. In fact, the proliferation of agencies and bureaus that administer these programs has been so rapid that a complete list of all the programs and spending authorizations is not available in any one place. As the federal government has extended its arm more and more into the lives of our citizens, the problems of dealing with and understanding the complexities of federal agencies have multiplied. Government that traditionally has been viewed as a friend is now too often an adversary promulgating regulations which involve expanding demands that are too often ill advised and ill conceived. At the University of Rochester alone, government red tape is estimated to add one million dollars annually to operating costs. To a family struggling to put a child through college, these added costs, which result in higher tuition charges, could very well be the deciding factor in whether or not their child will receive an education.

In considering this legislation, Mr. Chairman, we must realize that the American people have become disenchanted with their government. Put simply, government has gotten too big and too unresponsive. Whether one supports this expansion of government or feels, as I do, that the time has come to reexamine this proliferation of inefficient agencies, all agree that government has not even adequately met the challenges that have been placed before it. Every day it becomes more and more obvious that bureaucratic waste, red tape, and obscure, obsolete programs are getting in the way of real human needs. This legacy of "bureaucratic mess" is characterized by decades of federal actions pyramiding layer upon layer of single-target programs, each doing something in particular, but few doing anything in a comprehensive way to alleviate the root causes of the problems that they were designed to solve. Dozens of GAO reports and audits done every year detail the administrative chaos in aid programs and document the fact that there is essentially no estimation of what is being spent on administrative costs as opposed to actual services rendered.

This veritable "horror story" goes on and on; but the major point that these excesses drive home is the fact that so very little in substantive action is being taken to remedy the situation. A very large part of this inaction stems from the fact that many congressional committees are not even aware of all the agencies and programs that fall under their jurisdiction, because, in our budgetary process, only increases from the previous year are normally examined thoroughly. This year, one third of the money spent by the federal government, 120 billion dollars, is under permanent authorization, and for Fiscal Year 1977 federal spending for uncontrollable programs is 77% of the budget. What oversight the committees do perform is often irregular and haphazard; rarely being exercised with an equal amount of enthusiasm or persistence. It is rarer still that this sort of oversight results in a positive change within a federal agency.

The people of this country are ready for, and indeed are demanding, tangible evidence and real results that Congress is serious about making government more productive and responsive. This piece of legislation which is before your committee today, Mr. Chairman, is a constructive, responsible, workable, measure that will respond to the complaint that Americans feel they are not getting their money's worth from their tax dollar. The Government Economy and Spending Reform Act will provide Congress with a framework for systematically reevaluating all federal programs and activities, thereby strengthening the Congressional authorization process.

H.R. 11734 will expand congressional control over federal programs and activities in two basic ways. First, by placing most of these spending authorizations in one of four functional categories and requiring positive action on the part of Congress for reauthorization of these programs, this bill would impose a competitive forum on these activities and provide us with a vehicle for demanding accountability of agencies and departments which have all too often operated apart from public scrutiny. These agencies and departments would be compelled to convince Congress that they could accomplish their legislative goals more effectively and efficiently than alternate programs or bureaus. The experience with functional zero base review in several states reinforces my contention that this competitive approach can remedy the inefficient duplication and outmoded programs that stagnate our response to the challenges of today.

Secondly, in order that this proposed reauthorization process be more than just a stepped up version of our present system, H.R. 11734 requires that all programs and activities undergo a complete and rigorous zero base review to determine if the merits of the program definitively support its continuation rather than termination or continuation at a level other than the existing one. This zero base review is a key element in our efforts to reduce big government and bureaucratic overreach. If we are to accomplish these goals effectively, it is essential that we possess a working knowledge of how cost-effective the various agencies and programs are, as well as what improvements can be made or alternatives implemented. This bill provides a framework for assessing this information and implementing the related decisions. If we are to accomplish effectively the goals I spoke of earlier, we must be prepared to reduce financial outlays prudently to the point where only those agencies that are productive and necessary survive.

The executive branch of government benefits from this dual approach also. Zero base review, when implemented by state governments, led to a much more effective internal allocation of resources, because department and agency managers had evaluated the need for each function and had considered different ways of performing each activity. Furthermore, the managers had a tendency to evaluate in detail their operating efficiency and cost-effectiveness not only during the budget cycle but in the operation period as well.

The Government Economy and Spending Reform Act presents the demanding approach to the bureaucracy that is needed. Experience has shown that only a measure involving the contemplation of abolishing agencies will achieve a truly comprehensive reevaluation of existing federal programs. Experience has also shown that effective zero base review is a flexible process which tailors itself to the arena in which it is employed, and I have several specific suggestions which I would like to share with this committee concerning implementation at the federal level.

First, the Senate companion bill to H.R. 11734 tends to place more of the burden of the review process upon the executive branch. I disagree with this concept, finding it somewhat analogous to leaving a thief to guard the vault. Zero base review in New Mexico, Georgia, and New Jersey underlines the fact that it is not reasonable to expect a set of forms or guidelines to enable an agency to routinely furnish information that might result in a lower appropriation, no matter what the justification might be. The Congress itself must become deeply involved in oversight, and I urge this task force to recommend an independent research staff to provide Congress with the unbiased analysis it must have.

Second, this proposal and testimony before the House Budget Committee highlight the fact that zero base budgeting is a very complicated, involved process. It has been tried only once on the federal level (Department of Agriculture in 1962) and though its potential is unlimited, the practical implications of zero base budgeting will require a great deal of consideration. Past experiences with state legislatures have shown that in organizations where the span of control and communication is long, budget time needs to be substantially lengthened during implementation of a new system. In this "painful first year" agency reactions to zero base review will differ and managers either do not fully understand what is expected of them or do a poor job of identifying and evaluating priorities. For these reasons and others, I am recommending that Congress employ a pilot year to aid in the transition to an effective system of zero base review. This trial year was employed effectively in the implementation of the Congressional budget process, and I believe it would be useful for zero base budgeting also. The pilot year would not slow our drive for more efficient, responsive government, but would rather make it more effective by insuring that we and the system are better equipped to handle the Herculean task before us.

This legislation can reverse the trend of agency proliferation and produce the results that our country needs. It won't do so overnight, nor will it do so in a glamorous way. Rather this legislation focuses on the nuts and bolts operations that we are concerned with every day. It provides a framework for shifting the focus of debate from how the appropriations pie will be divided to whether the pie indeed merits being eaten at all. In the final analysis, however, the real burden of the Government Economy and Spending Reform Act of 1976 falls on the Members of Congress. In the years since the growth of these pyramiding programs, one of the most serious problems that we have had to face is the creation of a built-in constituency for every program or activity. These special interest groups, which are wholly dependent on the continued existence of these programs, have proven to be very effective over the years at pressuring Congress for their untouched continuance, no matter how unjustified or inefficient they might be.

Nothing will more readily negate the effects of zero base review than partisan and political factors. Mr. Chairman, it is essential that you, I, and our colleagues in the Congress take an objective, analytical stand on these programs and place the goal of efficient, responsive, competent government above a narrowly defined special interest. It is time that Congress realize the fact that until we bring what programs we have under control, we may not have the necessary resources, either in money or public trust to pursue new solutions to national problems.

Thank you, Mr. Chairman and members of this Committee, for providing me the opportunity to make these remarks.

PREPARED STATEMENT OF HON. WILLIAM R. COTTER, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF CONNECTICUT

Mr. Chairman, members of the Budget Process Task Force, I appreciate the opportunity to add my views to your initial hearings on zero-base budgeting.

Proposals that call for zero-base budgeting, zero-base review and "sunset" represent complex and far-reaching reforms that could give Congress greater control over the federal services purchased by the nation's taxpayers.

But this reform will fail, and future efforts may be discredited as unrealistic, if we try to push through a new process without the benefit of careful study and controlled experimentation.

Whatever particular reforms Congress chooses to adopt, they will be possible only because of the groundwork already prepared by this committee. By requiring strict deadlines and spending ceilings, our new budget process has shown that Congress is not a helpless victim of the bureaucracy it helped create. We *can* realistically exercise our Constitutional responsibility to share in the direction of federal programs and activities.

However, more needs to be done. The problem is not simply that federal spending is spiralling out of control. The nation's tax burden might not seem so unpalatable if people believed they were getting services equivalent to the cost.

The issue, then, is (1) how to reduce, terminate or consolidate programs when they are found to be wasteful or duplicative, and (2) how to improve service delivery for those programs that remain in existence.

In my work on the Ways and Means Health Subcommittee, I have seen the dismaying evidence of the gap between federal spending and the quality of services actually rendered. In 1972, for example, more than 100 federal health care programs employed about two million workers. During that same year, however, the richest country in the world ranked only 15th among nations in its ability to deal with the problem of infant mortality.

Social programs do not constitute the only area where sunset is badly needed. Our Defense Department is not immune from the same forces of bureaucratic momentum that have expanded every other department of government. A termination schedule for all federal programs might force us to re-examine the B-1 bomber program, for example. Regardless of the merits of this particular budget item, a reauthorization limit would give Congress the opportunity to reconsider the cost-effectiveness of weapons systems before they were completely developed, and then, after the fact, found to be obsolete or frivolous.

In considering the shape of further reform, let me offer a few points for your examination.

Like many other members, I have introduced a "sunset" bill this session. My bill differs from H.R. 11734 in one significant respect: it requires the *termination* of federal programs that are not subjected to a zero-base review. H.R. 11734 would permit such programs to be continued at their previous authorization, even if the *review* were not conducted.

I believe there are two reasons we will find the termination provision a necessary feature of any "sunset" bill.

First, as the Senate hearings on S. 2925 have pointed out, the threat of termination will help guarantee that all parties in a zero-base review will take the process seriously.

Second, termination will be a necessary step to overcome the inertia of programs that, once put in place, become difficult to reduce or eliminate.

If we permit programs to be reauthorized at the previous year's spending level, what incentive would the process provide for line level managers to conduct a review that might prove their programs to be wasteful, ineffective or duplicative?

Moreover, a law that allows programs to continue without the threat of automatic termination would do little to reduce the power of the narrow constituencies that traditionally have gathered around particular spending programs. Conceivably, the defenders of an ineffective program could thwart a zero-base review, content to see the program reauthorized at the previous funding level.

The argument for allowing authorizations to continue is that the zero-base budgeting and review process may not work. Congress may become so overburdened with budget data that it cannot complete many of the zero-base reviews required to reauthorize programs. As a result, worthwhile programs might be terminated.

This argument has merit, and I would therefore suggest that any termination provision should be phased in gradually. For the first few years of a zero-base process, while we are learning if it works, the law could permit programs to be continued at their previous authorization, even if Congress did not have time to prepare the necessary reviews. The termination requirement could be introduced at a later date, after Congress had time to make the new process workable.

However, we may discover that a pilot program is necessary before we embark on any comprehensive reform. It is not enough to say that zero-base budgeting and sunset laws have worked in some states. We are dealing with the federal government, a vastly more complex phenomenon.

A comprehensive sunset bill would be a quantum leap both for Congress and the Executive Branch. No one really knows if the concept would work on the grand scale currently envisioned in the proposed legislation.

As a starting point, we could use Mr. Blanchard's original "Truth in Budgeting" legislation, which would set aside one division in H.E.W. and one division in D.O.D. for a two-year test project. Such an experiment, of course, should have the requirement that these programs really would terminate if the review were not conducted.

Given the magnitude of the proposals, I think it would be unwise to rush into a reform before we know if it is workable. We badly need the kind of discipline sunset would offer. It would be unfortunate if the need remained unfulfilled because we assumed budget responsibilities we were not properly prepared to execute.

The various bills that have been proposed are designed to institutionalize fiscal responsibility. Today, the mood is right to cut costs and make the federal government more efficient and responsive. Tomorrow, the mood may change. We need to build on the hard work of this Committee with a legislative mandate—a process—that will allow Congress to terminate or restructure wasteful programs after a careful and informed review.

[Whereupon at 12:40 p.m. the task force adjourned, to reconvene at 10:30 a.m., Tuesday, July 27, 1976.]

ZERO-BASE BUDGET LEGISLATION

TUESDAY, JULY 27, 1976

HOUSE OF REPRESENTATIVES,
TASK FORCE ON BUDGET PROCESS,
COMMITTEE ON THE BUDGET,
Washington, D.C.

The task force met, pursuant to notice, at 10:30 a.m. in room 210, Cannon House Office Building, Hon. Brock Adams (chairman of the task force), presiding.

Present: Representatives Adams, Smith, Giaimo, Latta, and Holt.

The CHAIRMAN. The Budget Process Task Force will come to order. Our hearings this morning are on zero-base budgeting. We have a series of witnesses that we hope will bring to the committee both technical information and recommendations on this subject. Like many things, it is a subject which everybody seems to be for, but when you get to the particulars, it becomes very difficult.

I particularly want to welcome our witnesses for this morning's hearing. Testifying this morning are Allen Schick of the Congressional Research Service, Paul O'Neill, Deputy Director of OMB, and Peter Pyhrr, vice president of Alpha Wire Co., who implemented Texas Instruments, and in the Georgia State government a zero-base budgetary system at Governor Carter's request.

The goal of these hearings is to make recommendations to the full Budget Committee and Rules Committee regarding how we would implement a zero-base budgeting system.

I might say that personally I think that this is essential because we have faced a difficult problem this year. We cannot do anything substantial in terms of moving programs forward that are already in place. We have had a very difficult time with them, yet they continue.

I want to mention some specifics. How do you change the legislation on the 1-percent kicker, which has been voted by this committee and voted by the House? We have gotten it through two separate committees, but it is all contingent on a third committee. If that third committee does not act on it, then we cannot do anything about that program, even though its elimination has been a clearly expressed goal on the part of the House.

It is not the position of the Budget Committee or the chairman to pick on a particular group or particular program. I might note that we find this situation across the board.

Mr. Giaimo and I were just in the Democratic Caucus this morning where we are trying to do something about the mandatory programs in the GI bill extension and whether or not there will be an automatic extension of that bill. Once again this bill goes to a committee that has very definite interests.

We are also struggling with the Highway Trust Fund, where the committee of jurisdiction does not wish to place a limitation on what will be spent in any one year. If it does not, then you create a budget resolution with little meaning. It is almost impossible to determine what will be spent each year.

The same has been true in areas of the Defense budget. It has been true in areas in HEW. And our problem is how do you reach the ongoing programs which do not have a termination date, and which have continued for many years. The Budget Committee must then either automatically take these programs into the budget—which tends to build in a very high fixed-expense—or go in and struggle, trying to do what I call “pushing the string” to make a change.

We are very pleased this morning to have Mr. Schick, who is a recognized expert on budgeting.

As all of you familiar with zero-base budgeting know, it requires basically two things, a cycling process whereby you redo all the bills that are in place at some point, and second, that you look at the entire program from top to bottom, rather than just the proposed increment for a particular year.

We are hopeful that we can put one of these proposals into draft form so that as we are moving into the next budget cycle, we will be able to implement it and have this concept become part of the whole budgeting process of the Congress.

We think it can be done; we hope it can be done.

Mr. Schick, it is a pleasure to welcome you here this morning. We will be very pleased to hear your statement.

STATEMENT OF ALLEN SCHICK, CONGRESSIONAL RESEARCH SERVICE

Mr. SCHICK. Thank you very much, Mr. Chairman.

I have a prepared statement, but I think it would be more useful for the committee for me to place that statement in the record and instead concentrate on a few matters of concern with regard to the relationship between zero-base budgeting and the sunset legislation which is pending before the Congress, also with regard to various alternative approaches which may be considered by the Congress as it considers zero-base budgeting.

The CHAIRMAN. Without objection, the entire statement of Mr. Schick will be placed in the record.

Mr. SCHICK. Thank you.

I also would like to inject a note of realism into the debate on what zero-base budgeting and sunset might do if they were implemented.

We seem to have conflicting caricatures of both the existing process and of a zero-base budget process. We tend to underestimate what the current budget situation achieves for us, and perhaps we tend also to overestimate what might be accomplished under zero-base budgeting.

When we have inflated expectations about what zero-base budgeting might accomplish, it opens us to criticism and caricature, because of the likelihood that these expectations would not be realized.

On the one hand, many people insist that if something is placed in the budget, it never leaves the budget—despite the fact that there is considerable evidence that although Federal expenditures have been

trending substantially upward over the last decade, there has been a turnover in programs. Such change is not easy—it is not painless—but it is accomplished.

If one were to look at the budget of the United States of a decade ago, and lay it side by side with the budget for fiscal 1977, we would find a considerable number of programs which now are funded at a lower level than they were a decade ago, or at a lower level in terms of constant dollars, and we would also find a number of programs which were in the budget 10 years ago and no longer are there.

We also will tend to find, if we were to place these programs under the microscope, so that we could look at them in more minute pieces, that even though the total program level does not appear to change, there are within Federal agencies constant redirections of effort. It is, I believe, a simplification to insist that nothing gets removed from the base if it already is in the budget.

On the other hand, if we were to look at zero-base budgeting as a process which every year or two reexamines everything, without any selectivity, then we would expose ourselves to a different problem: It simply is not possible, within that time framework, to re-discover, reconsider, or reevaluate from the bottom up, everything, every year or 2.

Government continues, and its programs continue. Zero-base budgeting will not open us up to a Government of sudden death, where according to an automatic budgetary or sunset process, we will phase the automatic termination of one-fifth, one-quarter, or one-half of all of Government every year.

What is likely to be achieved under zero-base budgeting and sunset, however, is very important and very valuable. These processes may give the Congress and the executive branch a greater ability to reexamine the base, in terms of current priorities, as well as in terms of the effectiveness and performance of programs established in previous years.

In this regard, zero-base budgeting and sunset should not be conceived as all or nothing propositions, but rather as enhancing and expanding the ability of the Congress to make program changes and redirections when it so desires.

This more modest viewpoint of zero-base budgeting and sunset certainly is within reach.

How do you implement it?

At the outset we ought to make a clear distinction between zero-base budget practices, particularly as they have developed in the States, and sunset as it is now being considered in legislation pending before the Congress.

These are two related processes trying to achieve the same result—that is, the reexamining what the Government has already committed itself to do. But they take rather different paths, and the differences are very important in terms of their relevance to Congress.

Zero-base budgeting tends to be an executive process, carried out by agencies in the course of budget preparation. In the dozen States, approximately, which have thus far implemented zero-base budgeting, the activity is almost exclusively an executive one because State practices tend to more liberally enable the State legislature to obtain executive budget data than is the case on the Federal level, the State

legislature often is able to get the zero-base data. But the review is done by the executive agency, not by the legislature.

Sunset, as it is conceived in pending legislation, however, is largely a legislative process. It is pegged to the termination of statutory authorization of programs. The reauthorization of programs, which requires new legislation, is a legislative as opposed to an executive process.

A second important difference between zero-base budgeting and sunset is that zero-base budgeting excels primarily as a management tool. Its utility increases as you go down the organizational ladder; it is less appropriate at the lowest level of the organization at that level, where very frequently there is too little reconsideration of what is going on, zero-base budgeting can be an effective device for encouraging managing managers responsible for particular activities and programs to take a new look.

That questioning can continue upward in the organization, but it is not likely to be done in the same manner at the very highest level.

A Governor of a State cannot do the priority ranking, or other techniques of zero-base budgeting, which would be appropriate at the lowest level.

Sunset, however, is exactly the opposite. It concentrates on the highest level of program aggregation—that is, programs as they are authorized by Congress—a health program, a medicare program, a housing program, an educational program, on and on down the list. Although there are apt to be hundreds of these programs which might be subject to reauthorization under sunset, these compare to the many thousands of discrete activities which might be identified separately under zero-base budgeting.

The third and most relevant differences for this committee is that zero-base budgeting is a budget process and sunset is a process which works in relation to but relatively independent of the congressional budget process.

Let me explain. Zero-base budgeting takes advantage of the action-forcing qualities of a budget process—you have to budget every year, you have an ability, therefore, to force on the table certain matters for consideration which otherwise might be neglected. This is one of the reasons why throughout modern governments budgeting has come to command such an important and central position in the making of public policy.

However, budget processes are very limited. They tend to assume that laws already on the books requiring the expenditure of funds will continue on the books. If public officials work only through the budget process, and try to make changes in those laws, they often run up against difficulties.

The chairman, in his opening statement, referred to the 1-percent kicker which is a good illustration of this phenomenon. If you look only at the budget you quickly discover that you have to go outside that process if you want to deliver on the changes which the budget calls for. The reason is that the budget process, all budget processes—whether it be a congressional process, an executive process, one in a State, or one in a city—excels as a procedure for continuing Government in operation. A budget is perhaps the greatest triumph of routine known to modern Government.

Sunset, however, has the limitation that it is not directly linked to the budget process, it concentrates instead on authorizations. But by being liberated in some measure from the budget process, it focuses on those things which have to be done in legislation to deliver the changes which the budget process calls for.

For example, if in its congressional budget resolutions Congress were to decide to shift priorities in a variety of programs already established under law, it would take some change in authorizations to implement those new priorities voiced by the budget process. Sunset focuses on the authorization process; it thereby is legislative in character and deals with top policy issues. By comparison, zero-base budgeting focuses on the budget process, is largely executive, and primarily managerial.

However, there is an advantage in relating zero-base budgeting and sunset.

From the perspective of zero-base budgeting, the advantage is that in order to carry out the dictates of the budget process, you have to reach to legislation, particularly when the legislation already is on the books and mandates an expenditure.

However, there also is something to be gained from linking sunset to zero-base budgeting, because if we authorize without being sensitive to budgetary realities, we might merely perpetuate the appropriation-authorization gap which has grown up over the last decade or so.

One illustration of this problem can be gleaned from the programs run by the Office of Education. In a recent year, the authorization level was approximately \$10 billion, the appropriation level was about \$4 billion, a gap of \$6 billion. One of the reasons why this gap exists is that currently there is no reason to be realistic at the authorization stage when dollar amounts are being considered.

Perhaps one of the virtues of linking zero-base budgeting to sunset would be to inject a measure of realism about the dollar costs when authorizations are voted by Congress. It is a hope, but this is something which some people might think is apt to be difficult to achieve, even with sunset.

Now, in implementing zero-base budgeting and sunset, Congress is faced with a series of problems which are reflected in a number of the bills now pending.

If Congress gives the main responsibility to the executive branch, it might be departing from the trend of initiatives and taking the responsibilities reflected in the Congressional Budget Act of 1974.

On the other hand, if Congress, through sunset, says that, "We are going to do the evaluation, we are going to undertake the zero-base review of programs," then Congress will simply be overloaded. No matter how much you augment the staffs of Congress, there will be no way for Congress to carry on its own backs, or the backs of its committees, the task of reviewing over 3-, 4-, or even a 5-year cycle, the hundreds of programs which would terminate and come up for reorganization under a sunset procedure.

This problem has been wrestled with extensively in the Senate—in S. 2925, which has identical and companion bills in the House. It is for this reason that S. 2925 has now gone through, I believe, half a dozen committee prints—trying to find a balance between executive and legislative responsibilities, a balance between the other demands

already placed on Congress and its authorizing committees, and the new demands which would be established via sunset.

And to go back to my starting statement, trying to find a balance between a concept of sunset which attempts to review everything, as if all problems were equal in urgency, as if they all were equal targets of opportunity for change. We must strike a balance between this comprehensive review, and a more selective sensitive attention to those particular programs where there is indeed an opportunity. For example, again referring to the 1-percent kicker, the Budget Committee could have looked at a much larger range of programs this year, but it looked at 1, 2, 5, 10 major problem issues. Regardless of how comprehensively zero-base budgeting or sunset is applied, it is going to be selective. You cannot look at everything.

Without going into details on the current version which is being considered, an attempt is being made to achieve these balances between executive and legislative responsibilities, between the other legislative responsibilities of authorizing committees, and those reported under sunset, and between comprehensive and selected review.

Most of the sunset bills, there are about 3 dozen of them pending before Congress right now, including duplicates, focus exclusively on the authorization process. There are two additional candidates for sunset in various bills which might merit consideration. First, the regulatory activities of the Federal Government. Although regulatory agencies and their activities would be covered by a general sunset law, rules and regulations tend to require a different perspective, and a different kind of evaluation than programs which are primarily expenditure ones.

So there are various bills and proposals to orient sunset specifically to regulatory activities.

The second candidate for extension is tax expenditures. The Congressional Budget Act of 1974 opened up a new concept for Congress, in addressing the relationship between tax expenditures and direct expenditures. For various purposes, tax and direct expenditures are substitutes for one another. Governments can accomplish the same public policy on the spending side or on the tax side.

Without judging proposals to sunset tax expenditures, let me just point out that the state of art with regard to tax expenditures is much less developed than it is with regard to direct expenditures. This is a new concept, and the process of identifying, pricing out tax expenditures, and understanding how they operate, is not yet as advanced as it is for direct expenditures.

In conclusion, let me look at how sunset would function if it were implemented.

Let's assume you have a program—I will play it safe and not name the program—costing \$100 million a year, in which the law already establishes various requirements and authority—"The Secretary shall"—et cetera, et cetera. With sunset, all the basic statutory language would remain in effect. Sunset would not require the reenactment of the entire United States Code every 5 years. That would be a total impossibility. Sunset would simply reach the authorization provision, that little piece of the total statute which says that funds are authorized to be appropriated. Sunset would pull the plug on the money for the program without changing directly or automatically the basic language in law.

Once, however, sunset terminates the authorization, Congress would have a smorgasbord of options on how to proceed.

Congress might merely reconsider the authorization provision—how much money, how long, for what purposes, and reenact it. Or it might decide to terminate the whole program, because it is not worth spending additional money. Or it might decide to use the sunset of the authorization provision as a means of reaching more extensively to the language already in law. For a particular program, Congress might inquire: Is this what we want the Secretary to do, is that the authority and the discretion we want him to have, is this the purpose and objective that we wish to cast for the program?

In sum, on the surface sunset seems to be a uniform process, in practice it will turn out to be something rather different for each of the programs subject to it. And the differences will be the ones determined by Congress.

Thank you.

[The prepared statement of Mr. Schick follows:]

PREPARED STATEMENT OF ALLEN SCHICK

Mr. Chairman, I appreciate this opportunity to discuss the purposes and proposed applications of zero base budgeting (ZBB, in shorthand) and sunset legislation. Although they used different procedures, zero base budgeting and sunset share a common objective: to compel the periodic review of every federal program in order to determine whether it should be continued. These are complementary—not competitive—approaches; they can coexist as a comprehensive set of procedures for legislative and executive review of government programs and expenditures. Features of ZBB and sunset are combined in a number of bills now pending before the Congress.

Before considering these bills, it would be appropriate to describe zero base budgeting and sunset—in concept as well as in practice—and to identify their similarities and differences. ZBB is a procedure for examining the entire budget, not just the funds requested above the current level of spending. It thus differs from incremental budgeting in which review is concentrated on proposed increases while the “base” is given little attention. The term “zero base budgeting” indicates that a government’s budget should be rejustified from scratch each year or two, with the same procedures and standards applied to old and new programs.

This idea is simple enough, and it need not be accompanied by any special procedures for carrying out the desired bottom-to-top review. All that is necessary is for a government or agency to instruct its budget preparers and reviewers to re-examine every item in the budget, regardless of its antiquity, statutory basis, or original objective. This type of zero base budgeting was tried in the U.S. Department of Agriculture about a dozen years ago, but it apparently failed to produce any significant change in budget outcomes.

More recent ZBB experiences—particularly in the states—have been associated with new techniques which compel administrators to go through a prescribed sequence of steps in preparing and defending their budgets. Although ZBB procedures differ among the governments that have applied it, two distinctive techniques generally are used: (1) the classification of budget proposals and alternative levels of spending (or effort) into “decision packages”, and (2) the ranking of these decision packages in order of priority. Decision packages usually are identified for each discrete activity of the government, so that there are likely to be many thousands of such decision units in the Federal budget.

Although ZBB implies that every dollar in the budget should be questioned, in practice it becomes a process for the marginal analysis of various budget alternatives. One of the alternatives usually is set below the current level of program or expenditure, and other alternatives are at incrementally higher levels. In the State of Georgia, for example, the first alternative is the minimum level below which it is not realistic or feasible to operate the activity at all. A second alternative is the base level, corresponding to the current level of service for each program. A third required alternative is for workload increases, and a final category is for new or improved programs.

Thus far, most ZBB activity has been in the states, approximately a dozen of which have introduced some form of zero base review in their regular budget processes. The contemporary ZBB movement in the states began in Georgia about five years ago and it appears to be gathering momentum. Most of the ZBB states have turned to it only in the last year or two, and most express satisfaction with their systems. At least three additional states appear to be on the threshold of ZBB implementation while half a dozen more are giving the idea serious consideration. Five states report that they have considered but rejected ZBB and one of these—New Mexico—actually installed but subsequently abandoned a comprehensive ZBB system.

Let me turn now to the sunset concept. Sunset legislation establishes a date on which the statutory authority for a program or agency automatically expires unless it is re-enacted. As conceived for the Federal government, the basic legislation would continue in effect, but funding for programs would terminate unless they were reauthorized. The reauthorization would be accompanied by legislative and—or—executive—evaluations of the programs scheduled to expire, so that Congress would be able to consider program costs and accomplishments before deciding whether to continue a program, in what form, and at what cost level. Sunset could be compressed into one or two year cycle, or it could be stretched into a process extending 5 years or longer.

Sunset can be applied comprehensively to all government programs and agencies or selectively to a particular class of programs. In Colorado—apparently the first State to enact major sunset legislation—the device is targeted to various regulatory agencies. The manner in which sunset is implemented must be contoured to the types of programs it covers. An operating program which spends great amounts of public funds cannot always be put to the same evaluative tests as are appropriate for a regulatory program in which the level of spending may not be the main determinant of the program's performance.

COMPARISON OF ZBB AND SUNSET

Zero base budgeting and sunset take different paths to the same objective. The differences are not merely matters of mechanics but go to the relationships between the legislative and executive branches as well as to the role of the budget process in the making of government policies.

As it has been applied in the states, ZBB is primarily a managerial tool for program operators rather than a policy process for top-level decision makers. Each manager responsible for a discrete activity develops his decision packages and ranks them in order of priority. This initial step in ZBB occurs at the lowest level of an organization capable of formulating a budget proposal. Even in a medium size government, there are apt to be hundreds, if not thousands, of these separate decision units. The decision units are then consolidated into broader priority rankings at successively higher levels of the organization, in the same manner as agency budgets are conventionally prepared. This consolidation and ranking process can continue until it reaches the chief executive, but it is not feasible at this top level to comprehensively consider and rank all of the packages and alternatives. Budget review at this level is likely to concentrate on a comparatively small number of policy issues, and one cannot be certain that these issues will be considered much differently than if they were processed under more conventional budget procedures.

Sunset is likely to operate at a high level of program aggregation, on issues of major concern to policy officials. The center of attention in sunset is on a terminating provision of law or a clusters of laws. The process is anticipated to work in a fashion almost the reverse of ZBB, beginning with highest level issues and then being disaggregated to more particular matters. Sunset can penetrate to the details of program implementation but these can be considered in the context of the policy issues pending before the legislature.

A second distinction between the two processes is inherent in their modes of operation. ZBB is a budgetary activity, cycled to the one (or in some states) two year timetable of the budget process, and it possesses the distinctive opportunities and limitations of budgeting. ZBB takes advantage of the action-forcing characteristic of budgeting, but it also can become just another set of budgetary routines, an additional chore that agencies have to go through in order to get their money. Because of its budget connection, ZBB is likely to be germane only for agencies and programs in which money is a main determinant of performance.

Sunset is linked to broader law-making functions, though it, too, can be oriented to the need of all programs and agencies for funds in order to continue in operation. Most Federal versions of sunset are tied to the authorization process in Congress, to the particular provisions of law which authorize Congress to appropriate funds for programs and agencies.

The most important difference between zero base budgeting and sunset is that the former is primarily an instrument of executive budgeting while the latter necessarily is a legislative device. ZBB activity occurs during the preparation of the budget by government departments and agencies. The appropriations process need not be directly affected by the ZBB activities of the executive branch. By itself, ZBB would not necessarily enrich or alter the form or quality of data available to Congress. In a number of ZBB states, the legislature has been involved in the new process primarily because it already has a formal role in executive budget preparation. But in other states where executive budgeting is practiced, neither the content of the budget nor the form of appropriations has been affected by ZBB.

This issue is potentially more serious for Congress than it is for most state legislatures. In over half of the states, copies of agency budget requests are made available to the legislature, either when the request is submitted to the Governor or at a later date. Most state legislatures, therefore, have access to the ZBB alternatives considered by the executive branch as well as to the priority rankings and at least some of the performance and analytic data marshalled by the agencies in support of their budget requests. Congress, however, generally obtains only the budget recommendations submitted by the President, though for an increasing number of programs and agencies it is managing to get agency estimates as well. If ZBB were introduced under this arrangements, Congress might be cordoned off from the consideration of alternatives and priorities by the executive branch.

The sunset process, by contrast, could be legislatively controlled, with congressional committees determining the kinds of review that should be conducted of expiring programs. The authorization process offers a broader scope for congressional participation and direction than does a ZBB process operated in the bowels of executive agencies.

RELATIONSHIP OF ZBB AND SUNSET

I have already noted that although the two approaches differ, they also have the potential to complement one another. Sunset can compensate for some of the limitations of ZBB and vice versa. The main limitation of ZBB is that of the budget process itself. No matter how thorough and objective an evaluation is made of a program, it simply might not be possible to shift funds from one use to another. In all governments, the budget process excels as a means of assuring continuity and stability in government; it works to smooth out the zigs and zags which might arise from political changes and other circumstances. One of the laudable aims of ZBB is to countervail against this static feature of budgeting, to encourage more change rather than inexorable continuation and growth of base programs. But it is not surprising that the few studies of ZBB in operation have suggested that it does not significantly affect the efficient allocation of a government's financial resources, that the content of the budget is not necessarily different after ZBB than before.

The Federal budget offers a compelling explanation of why ZBB often fails to affect the allocation of resources. Almost \$200 billion in new budget authority for fiscal 1977 is in the form of permanent appropriations which become available without any current action by Congress. Since Congress doesn't have to do anything in order for these permanent appropriations to be available for obligation, it is quite possible that their budget status will not be altered by ZBB. Much the same applies to the almost three-quarters of the budget which is officially classified by the Office of Management and Budget as "relatively uncontrollable under existing law." Without changes in basic legislation, these outlays will have to be made during fiscal 1977, even if a ZBB evaluation were to challenge their effectiveness. As a matter of fact, much of the remaining 25 percent of the budget also is not likely to be substantially impacted by ZBB because these funds go largely for salaries and other costs of operating the programs of the federal government. Perhaps the only segment of the budget where ZBB alone might make an immediate and substantial difference is in Federal grants to State and local governments, and one must question whether the budget process should be biased in favor of only this type of change.

The budget process has two characteristics which impair its ability to convert ZBB reviews into budgetary outcomes. One of these is the fact that basic legislation often has to be modified in order to implement the ZBB findings; the other is that the budget process tends to fix its attention on the forthcoming fiscal year rather than on a larger term view of things. Both of these problems can be ameliorated if ZBB is applied in tandem with sunset. Sunset goes to the basic legislation so that it can deliver the changes prompted by the zero base budget. Moreover, most sunset schemes envision a multiyear authorization cycle, thereby liberating ZBB from the limitations of a one-year-at-a-time budget process.

But sunset has some problems of its own for which ZBB can bring relief. A significant number of the Federal programs which now have multiyear authorizations experience what has come to be known as an authorizations-appropriations gap. Programs authorizations for each year of the cycle are pegged at one level while appropriations often are made at a much lower level. This gap can make it difficult to establish realistic objectives for programs or to evaluate their results. If ZBB were coupled to sunset, it might encourage the authorization of programs at a level consistent with budgetary expectations.

ZBB AND SUNSET LEGISLATION PENDING IN CONGRESS

Perhaps three dozen ZBB and sunset bills (including duplicates) have been introduced in the House and the Senate during the 94th Congress. One of these—S. 2925, the Government Economy and Spending Reform Act—has been marked up by a Senate subcommittee and full committee consideration is scheduled for early August. Companion bills introduced in the House include H.R. 11734, H.R. 13305, H.R. 13370, H.R. 13541, and H.R. 14077. The sunset approach embodied in S. 2925 appears to be receiving the most attention at this time, but before reviewing it, I would like to briefly describe some of the other approaches taken in pending legislation.

Congressional review of all Federal programs every two years under zero base budgeting procedures would be required by H.R. 8968 (and several identical bills). The zero base reviews would be conducted by authorizing committees in accord with guidelines issued by the Congressional Budget Office. Federal programs would be divided into decision packages to provide for separate reviews of minimum levels, the base program, workload increases, and any proposed program expansion. A more limited review procedure would be applied to uncontrollable programs. Although it would be conducted under congressional auspices, the method prescribed in H.R. 8968 conforms to the zero base budgeting practices in various states.

A six year zero base review cycle would be established under H.R. 9007 and companion bills. The reviews would be conducted by House and Senate authorizing committees in accord with guidelines and a schedule promulgated by the Budget Committees. The program reviews would consider alternative funding levels and a variety of factors related to program performance and effectiveness.

H.R. 11188 would impose a four-year limit on authorizing legislation and bar any reauthorization of an existing program unless it has undergone a comprehensive review in accord with criteria set forth in the bill.

The remainder of my statement will deal with S. 2925, a bill with more than 50 co-sponsors in the Senate. The latest version of the bill differs in a number of significant details from the one which was originally introduced, though it retains the sunset concept with only slight modification. None of the companion House bills reflects the version currently being considered in the Senate, but I believe it would be most productive to discuss the latest rather than the earlier versions.

S. 2925 provides for the automatic termination of program authorizations over a five-year period in accord with a termination schedule prescribed in the bill. The schedule is designed to assure that all programs in the same budget function (or subfunction, in some cases) will be reviewed at the same time. S. 2925 exempts interest payments and certain contributory retirement, health care, and disability programs from automatic termination. S. 2925 is the only bill which contains a termination schedule thus enabling the process to take effect once the bill is enacted, without the need for any subsequent action by Congress. However, there is provision for modification of the schedule should Congress so desire. The programs exempted from termination constitute approximately \$150 billion in the 1977 budget, but these programs would be required to undergo the same review process as terminating legislation.

It is important to note that S. 2925 would not terminate all provisions of law, only those provisions authorizing the enactment of appropriations. All basic legislation other than authorization would continue in effect. Inasmuch as the

necessity for authorizations arises only out of the rules of the House and the Senate, the procedure of S. 2925 would assure congressional control over the process. The termination of authorizations would reach limited-term as well as permanent authorizations. At its discretion, Congress could continue annual (or shorter than 5-year) authorizations for various programs, but it still would have to review each program every fifth year.

In devising a review process, S. 2925 had to come to grips with two difficult issues: executive versus legislative responsibility for the process, and comprehensive versus selective reviews. If Congress were in charge of the review process, it might be unable to handle the required workload, no matter how much its committee staffs might be augmented. But if the executive branch dominates the process, there is a real risk that Congress would be at a disadvantage in terms of the criteria used for evaluation, the objectivity of the data and analyses produced by executive agencies, and congressional access to information. Congress can alleviate its workload dilemma by ordaining a selective rather than a comprehensive review process, but it then would lose some of the benefits of having related programs reviewed in the same year.

S. 2925 tries to balance these related concerns by providing for a review process which is controlled by Congress and in which Congress decides one form and scope of review appropriate for each program. The process would commence with the development of review plans by the House and Senate authorizing committees. The review plan for a program would specify the priority which should be accorded the review of that program, the criteria and standards to be applied in the review, the extent to which various features of zero base review should be applied, the assistance and information to be provided by congressional support agencies, and the reports, information, and assistance to be provided by executive agencies. This arrangement enables Congress to enlist executive participation in the zero base review without yielding its control over the scope or orientation of the review. Pursuant to this review plan, executive and congressional agencies as well as the appropriate authorizing committees would evaluate the past performance and effectiveness of expiring programs. The authorizing committees then would report on the results of their review, along with recommendations for the reauthorization, change, or discontinuation of programs.

One title of S. 2925, added by the subcommittee applies sunset and zero base review to tax expenditure provisions of law. Tax expenditures are an old practice but a new concept. They were statutorily defined for the first time in the Congressional Budget Act of 1974 to cover exclusion, deductions, exemptions, and other provisions of the tax laws which reduce federal revenues below their normal amounts. The term "tax expenditures" was devised to signify that these revenue losses can have the same subsidy and program effects as direct expenditures. For certain purposes, therefore, direct and tax expenditures can be regarded as substitutes for one another, and they can be subjected to the same type of review process.

The tax expenditure title added to S. 2925 would set up a procedure for the establishment of termination dates for all tax expenditure provisions of law. In accord with their termination dates, these provisions would be reviewed every 5th year by the House Ways and Means, and Senate Finance Committees, the committees with jurisdiction over tax legislation.

Although there are relevant reasons for applying sunset to tax expenditures in the same manner as to direct expenditures, several issues merit consideration.

One: Much progress has been made in the past 2 years in identifying and classifying tax expenditures, but additional research is necessary, especially for those tax expenditures which are in provisions of law other than the Internal Revenue Code.

Two: Many tax expenditures—especially those used by business are closely related to one another in the sense that the availability of a particular tax expenditure affects the use of other such expenditures.

Three: A review of tax expenditures probably should be accompanied by a reexamination of the basic tax structure, a matter which is beyond the scope of sunset.

The CHAIRMAN. Thank you, Mr. Schick, for an excellent presentation.

I am personally very grateful to you for laying these points out for us. I have only one question—and you addressed it right at the end of your remarks. The problem that this committee has is that we cannot play it safe. You have got to trigger off some programs. I am concerned

about your comment on the enormous amount of paperwork. We cannot review all these programs. We are overburdened now just doing the regular annual appropriations.

What is your selection system? Do you take, as is suggested in the Senate bills, four of the functional categories, and terminate them one year, and rotate four more the next, and four more the next, until you have gone through the whole group? Do you have a committee decide?

What is your trigger mechanism? Or what is the alternative? What do we do?

MR. SCHICK. There are a variety of alternatives which have been considered. One is pilot testing. My own view is that where pilot testing has been tried, it has not worked, because agencies get the message that it really doesn't count. You are not in business when you pilot test.

A second option is to spread the sunset or the zero-base procedure over a number of years—2, 5, 7 years—as many as is deemed appropriate.

A third possibility is not inconsistent with the second, and it is the approach taken in the latest version of S. 2925. It is as follows:

First, the sunset procedure applies to all programs of the Federal Government with certain exceptions like social security, retirement, and interests on the public debt.

Second, sunset is scheduled over a 5-year period, so that as the chairman just suggested, four functions might be up for review one year, two another year, two or four a third year, et cetera.

Third, the authorizing committees at the start of the sunset process would determine which programs up for termination in the next cycle would be given priority in their review.

In other words, they would file a formal report which would acknowledge: "We know everything has to be reauthorized, but we cannot look at everything, that is sheer impossibility. Therefore, for the next year, as we reevaluate the programs which are scheduled for termination, we will give priority to the following programs." As part of this setting of priorities of the agenda by the authorizing committees, they also would issue instructions to the executive branch agencies and to congressional support agencies, such as the GAO, the Congressional Research Service, and the others, as to the assistance and data which should be provided in the course of the next year, to enable Congress to do its job selectively.

Selectivity I believe offers the best hope of coping with what would otherwise be an impossible workload.

THE CHAIRMAN. Thank you, Mr. Schick.

Does any member of the committee wish to question the witness? Mr. Latta?

MR. LATTI. Mr. Schick, like the chairman, I want to compliment you on a very excellent presentation. I think you have raised some arguments for both zero-base budgeting and for the sunset process.

You mentioned in your statement that New Mexico had tried zero-base, but had abandoned it. Can you give the reasons for this?

MR. SCHICK. Yes. There were actually at least two reasons in New Mexico.

One was that about the second or third year that New Mexico was in zero-base budgeting, they had a huge budget surplus.

Mr. LATTI. That is good, isn't it?

Mr. SCHICK. Yes, but it is very hard to maintain the religion, budgetary discipline in this circumstance. Let me explain.

The instructions in New Mexico required State agencies to separately justify their programs as if they only would receive, I think 75 percent of last year's level of expenditure. The State treasury had enough to fund them at perhaps 130 percent. Every one knew the 75-percent exercise was unrealistic why zero-base budgeting failed, they were all going to get more. That was one reason. A second reason is much more pervasive. Zero-base budgeting in some States has created an enormous amount of paperwork, perhaps because it has not been tried selectively enough, perhaps because of the techniques used in some of the States. The combination of surplus funds and concern about the extra paperwork led New Mexico to abandon it.

Mr. LATTI. You mean all the surplus they had the first year was eaten up in paperwork the second year?

Mr. SCHICK. Not quite in paperwork—in budget requests.

Mr. LATTI. I think that would be interesting to the taxpayers, not only in New Mexico, but in Ohio and other States as well, that if they would turn to that system, they would come up with a 25-percent surplus in 1 year. I think it is something that has to be tried. And I think it has to be tried by this Congress. You indicated that zero-base budgeting is something more for the executive branch rather than the legislative, whereas the sunset process is for the legislative branch.

I don't see it that way. I think we have a job to do on zero-base budgeting. I know the members of the Appropriations Committee could take on a certain responsibility. I think that a lot of these programs have to be looked into. As you indicated, they go on on the books, and they are never looked at again—only on the increase side, they want more money. And I think it is time that we do something about this, if we are ever going to get a handle on this budget. Everybody in Congress is hearing from back home. People believe the budget is out of hand. We have to cut it back. There is no doubt in my mind that we do have some programs that should be terminated. Let's take a look at them. If they cannot justify their existence, do away with them. You pick up the newspaper and read about some individual saying he has nothing to do, and he gets a little bit self-conscious about the fact and makes some public statement about it. Now the Congress and the agency involved look a little bit ridiculous when something like this occurs.

I want to commend you for your presentation and for your interest in this matter.

Mr. SCHICK. Thank you, sir.

The CHAIRMAN. Any other questions from members of the committee?

Mr. GIALMO. Mr. Schick, isn't the problem one of time? In effect, when you speak of zero-base budgeting, and when you speak of sunset, you are suggesting remedies to do something that we really should already be doing and that we obviously are not doing; isn't that correct? I mean when we go to evaluate the budget and enact appropriations, we should be looking at the total budget. And you are saying we do not. Under zero-base budgeting we would do this. Do you think the reason we do not is that we have overloaded the decisionmaking process and we cannot do it on a yearly cycle?

Are circumstances going to be any different under zero-base budgeting, or sunset? Aren't we going to have to have a great deal of additional staffing? And isn't that going to further complicate our problem?

What I am really asking you is, "What is going to make it work?" It sounds great. And we are all becoming enchanted by it, because we recognize the present unhappy situation that literally we are losing control over budgets because of their magnitude. But what is going to make it work? How is it really going to be different?

Mr. SCHICK. There is only one thing that can make it work, and that is the Congress of the United States. It is perfectly possible to have a zero-base budget system, or sunset in operation, with the results the same as before. Some people, for example, have pointed out that a number of programs already are under annual or limited-term authorization, and it doesn't necessarily make a difference in how they are reconsidered.

So I think the answers will have to be given by Congress.

But you are right that there is no automatic benefit to be delivered by these new techniques.

Mr. GIAIMO. What is the magic ingredient that is going to make us so much better under ZBB?

Mr. SCHICK. I think the best response is to say that Congress will still be selective, and it will sharpen the ability of Congress to make program changes when it wants to.

I want to avoid the overexpectation that Congress will look at everything every year, or every 5 years. Even if Congress had the time, it would not have the disposition to reopen every question, or every program issue.

All zero-base budgeting and sunset will do is to give Congress, for those programs where it wants to, a better opportunity to take a different task, and to change the course of the program.

Mr. GIAIMO. They really have that power now, don't they?

Mr. SCHICK. Not always.

Mr. GIAIMO. They certainly have the power right now to look at the total budget of any given agency.

Mr. SCHICK. Yes; but——

Mr. GIAIMO. Isn't it a problem of time, that you have only enough time in the yearly budget cycle to examine the increases and add-ons, much less the basic programs?

Mr. SCHICK. That may be part of it. But I am optimistic.

Mr. GIAIMO. And doesn't the same apply to the executive branch, when they are putting their budget together?

Mr. SCHICK. Well, no one asks about how the millions of hours of work are invested in the executive branch in preparing the current budget. My own view is that it is possible to combine zero-base budgeting with current Executive practices in a way which does not overburden the Congress.

Mr. GIAIMO. What evidence of success can you present to us?

Mr. SCHICK. I do not know. The only thing I can offer you is from a very recent survey of the States; there are approximately 11 States which already have experienced zero-base budgeting, and they are happy with it. I do not know whether they are happy because they are getting better results, or because they are marching under the banner. It would take a knowledge of each particular State which I simply do not have, to answer your question more fully.

Mr. GIAIMO. Is there any available evidence?

Mr. SCHICK. Yes; and the evidence is not favorable. The evidence suggests that if you merely do zero-base budgeting, attached to the budget process itself, the likelihood is that it may turn out with roughly the same results, the same amount proposed program by program that you would have in the absence of zero-base budgeting. And the reason why that occurs relates to what I said before about the difference between zero-base budgeting and sunset.

In the context of a budget process itself, it is very hard to make changes. Most changes which have to be made require changes in legislation. No matter what you put in the budget, unless you follow through with legislative changes, the spending will continue on the same course. This is one of the reasons why I think that sunset combined with zero-base budgeting might be a more appropriate approach than zero-base budgeting alone.

Mr. GIAIMO. Just one more question.

You are an expert in this area. How does this change do, and to what extent if we adopt it to the established structure of the Congress? You are talking of budgeting, you are talking of tying in sunset-type legislation with budgeting.

The budgeting function is tied in with the legislative process. Now, what does this do, and what does it involve, and what does it entail with regard to the existing structure of Congress and the authorizing committees? And you are aware of what I am asking you in my question, which is political?

Mr. SCHICK. There is no necessity for changing the structure of the authorizing committees if Congress were to go to sunset. It is possible to live with the current situation in the same manner as the new congressional budget process is working with the preexisting committee structure.

However, it is a more complicated procedure to work with the existing structure—the scorekeeping and the crosswalking which the budget committees have to do are more difficult under the prevailing congressional committee structure than under perhaps a different one.

Mr. GIAIMO. Let's take the example you used earlier with respect to sunset legislation, the regulatory agencies. Who will say, "Okay, the sunset has set on the regulatory agencies."

Mr. SCHICK. That will be made by the Congress.

Mr. GIAIMO. Let's back up one step before that. Who is going to propose it to the Congress?

Mr. SCHICK. The committees of jurisdiction. In the case of regulatory agencies, they will be spread over a few committees. The Commerce Committee probably will have the lion's share of jurisdiction, but it will not have all of it.

Mr. GIAIMO. But aren't they in fact supposed to be doing that right now, without any kind of sunset legislation. In fact aren't they working toward that area? Isn't the climate right at this point, regardless of sunset legislation, for changes in our regulatory establishment? Isn't that about ready to come along?

I am really saying that is the way legislation comes about. We have arrived at that point right now, I believe, in our country, and in Congress, where we recognize that the regulatory agencies are not regulating, nor do they know what they are doing with the regulated industries and interests.

There has to be a change. And the question is, what change? How does sunset legislation expedite this or give the impetus or what?

Mr. SCHICK. I think sunset and the momentum for regulatory change are part of the same sense of public opinion. They are really part of the same mood of the times.

But let me mention that although today there is a lot of motion to change and redirect regulatory activities, that motion has not yet been realized—partly, because most regulatory activities of the Federal Government are conducted under permanent authorizations; that is, there is no definite requirement that Congress reconsider them. Everyone believes that Congress ought to do something about regulation, but because of cross-pressures and other problems, that movement gets spent.

Mr. GIAIMO. That is a benefit, isn't it?

Mr. SCHICK. That can be a benefit.

Mr. GIAIMO. That you give it a real deadline, and it has to get renewed rather than continuing on ad infinitum.

Mr. SCHICK. That is right.

The CHAIRMAN. Any more questions from the committee?

Mr. Smith.

Mr. SMITH. You said that only Congress could make this work, and I agree with that.

But a study has shown that the average Member of Congress now works 59 hours a week, which means some of them must be working 70. And so Congress is only going to be able to do things like this and improve if it can operate more effectively and efficiently. And I submit that there is a culprit here that you did not mention, that goes in the opposite direction, really, and that is that we have too many annual authorizations. These authorizing committees in the last 10 or 12 years have gone to annual authorizations, and they are so busy passing an annual authorization that is already 6 months late, and they have to put in all kinds of hold harmless clauses, and they are so limited with what they can do with the program anyway, that they just barely keep their heads above the water. And it is not enough to talk about sunset, and having a maximum number of years, but in addition to that we are talking about a minimum number of years on these authorizations, perhaps 3 or something like that, so they can make some meaningful changes, and not be so hemmed in with "hold harmless" clauses and worrying about what is going to happen to some school district that has already made plans for next fall, and you are affecting them. We have to do something about minimum authorizations as well as maximum.

Mr. SCHICK. You are putting your finger, sir, on one of the most difficult and touchy problems here. On the one hand many committees complain of workload. On the other hand, they move toward annual authorizations which augment their workload. The attractiveness of annual authorizations—this has been the trend as you pointed out—is that it enables Congress to pinpoint immediate and close control over executive agencies and actions. Congress can write into the annual authorization bill, if it wished, a variety of limitations on what an executive agency can do in the year ahead.

Now, I am a little skeptical as to whether the committees which have discovered the advantages to themselves of annual authorizations will readily surrender it in favor of a long-term sunset provision.

Consequently, although you may be right that the most advantageous use of congressional time would be to create a floor and a maximum on authorization periods, it might not be possible to do.

The Senate version of sunset, for example, authorizes the continuing use of annual authorizations. It does not put an end to these.

Mr. SMITH. Well, just to put it a different way, a little more succinctly perhaps, if Congress is to have the time to study the program that is going to be terminated unless it is extended, they are going to have to find the time somewhere, and to find the time they are going to have to have a minimum number of years on authorization, otherwise they will be buried in annual authorizations.

Mr. SCHICK. That is a very logical statement, yes, sir.

The CHAIRMAN. Thank you very much, Mr. Schick, for an excellent presentation. The Budget Process Task Force appreciates it very much and we are hopeful we will be able to draft something out of what you have submitted.

Thank you again.

Our next witness is Paul O'Neill, Deputy Director of OMB. Mr. O'Neill is here to present the administration's view on zero-base budgeting and sunset legislation.

Mr. O'Neill, it is a pleasure to have you here this morning. We are looking forward to your testimony.

Again, the committee is pleased to have another recognized expert in budgeting procedures.

STATEMENT OF PAUL H. O'NEILL, DEPUTY DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Mr. O'NEILL. Thank you, Mr. Chairman.

I have a short statement. With your permission, I would like to read it.

The CHAIRMAN. All right. You may proceed, Mr. O'Neill.

Mr. Chairman and members of the task force. I appreciate the opportunity to testify before this task force on H.R. 11734 and S. 2925.

We in the administration, following the President's strong leadership, are firmly committed to the stated purposes of these bills:

To eliminate inactive, unnecessary, duplicative or outmoded programs, and
To see to it that every dollar of the taxpayer's money is spent as efficiently as possible to produce the best possible product.

The President's commitment to these purposes is fully demonstrated in his legislative and budget program. A few examples illustrate that commitment:

The President placed before the Congress in January legislative proposals to consolidate 58 categorical programs into four block grants. Together, these 58 programs account for over \$18 billion in Federal spending for health, education, social services, and child nutrition. The defects in these programs and the obvious need for reform has been well documented.

The administration has proposed eliminating subsidies for farming practices which are a normal part of farming operations.

The administration has proposed termination of some housing programs because they have been found ineffective, high relative cost, and duplicative of other assistance programs.

The administration has proposed that new entrants to the peacetime all-volunteer armed forces not be given GI bill benefits; following the example of other peacetime periods and in recognition of the fact that volunteers are now being paid wages that are competitive with the private sector.

The administration has proposed a phased reduction of the subsidy of direct labor in military commissaries.

The administration has proposed reform of the so-called Impact Aid program.

These are just a few of many, many, examples where the President has proposed to do what the bills before you seem to have as their objective.

In assessing this record, frankly, I can't help wondering why it is the Congress doesn't turn its attention to considering the President's program if it too is firmly committed to the stated purposes of the bills you have before you.

In turning more specifically to H.R. 11734 and S. 2925, I would first like to raise a caution. Perhaps growing out of too many years of experience, I am frequently reminded of one of H. L. Mencken's pithy observations. He said: "For every human problem there is a solution; neat simple . . . and wrong."

That is not to suggest that you put aside the legislation you are considering. But it is intended to urge caution.

I believe a good case can be made for legislative action by observing the progress that has been made under the Congressional Budget Act. But at the same time our experience with the planning-programing-budgeting systems (PPBS) of the 1960's suggests we proceed with great care. In my judgment, our experience with PPB demonstrates the problems that can be created with a rigidly specified system. Those of you who were close to it will recall, as I do, the mountains of paperwork it produced. One saving grace was the fact that it was a creature of the executive branch which we were able to redirect without legislative action; preserving its fundamental ideas while doing away with its process burden. And so, I think it is extremely important, as this legislation is considered that we try very hard to say precisely what it is we think will be accomplished by its enactment and what its cost will be. In other words, we should apply the ideas of sunset and zero-base review in considering this legislation.

Last spring, in testimony before the Senate Government Operations Committee, we offered an analysis of S. 2925 in its original form, which at that time was identical to H.R. 11734. Those comments are, I believe, still valid and I have therefore attached them to my prepared statement.

Mr. O'NEILL. There is one concern not covered by the attachment that I want to mention. It has become apparent that the program identification required to be made by the GAO under the existing bills may lead to a paperwork process that is mind boggling—even by Washington standards. We have indications that the GAO approach may result in the identification of 20,000 or more programs. These programs would then become the basis for determining the number of reviews to be made and of objectives to be covered in the budget.

The CHAIRMAN. Without objection the attachment will appear at the end of your statement.

This point emphasizes the need for caution that I stressed earlier.

Mr. Chairman, I would be happy to answer the questions of the committee.

[The attachment referred to follows:]

EFFECT OF PROVISIONS OF S. 2925

Some of the specific provisions of S. 2925 could work at cross-purposes with the basic intent of the bill. A discussion of some of these problems follows.

LIMITING AUTHORIZING LEGISLATION TO FOUR YEARS

Title I imposes a 4-year limit on authorizing legislation for most Federal programs and activities. This means that these programs must be reauthorized every four years or be terminated. The Senate and House Budget Committees would have jurisdiction over deviations from that schedule.

The bill covers virtually all Federal programs, except interest payments on the national debt. While it exempts Medicare, social security and other retirement and disability trust funds, these programs could not be changed unless a zero-base review and evaluation had been conducted and the results reported by the legislative committee to the House and Senate.

The provision ignores some realities. The functions of some agencies (as opposed to the efficiency with which these functions are carried out) are not subject to dispute. For example, there seems to be no disagreement that Justice must enforce Federal laws, Defense must maintain the national security and the Bureau of Census must count the population.

Tying the mandatory reauthorizations to the functional classification will insure that the programs in each category will be reviewed simultaneously. However, this does not provide for focusing review and reauthorization on government-wide issues that may cut across functions or subfunctions. In addition, it is unlikely that any fixed classification could provide for such focus. Use of the functional classification would also make restructuring of that classification more difficult to accomplish.

The processing and paper work that would be required each year for those Federal programs being reauthorized would be mountainous. The end result of this provision would be to divert time from focusing on those programs or activities for which changes should be made. The necessity to prepare detailed justifications and evaluations for all reauthorizations would impose an unnecessary workload and paperwork burden on those agencies whose functions are not subject to dispute and those agencies whose efficiency is not questioned.

The means already exist for concentrating our evaluation efforts on those areas for which they are most needed. The legislative committees of the Congress clearly have it within their power to specify that evaluation studies will be made in conjunction with new authorizing legislation or amendments and extensions of existing law. Moreover, the Government Operations Committees and Budget Committees would appear to have both the authority and the interest to suggest areas of study. Of course, the Appropriations Committees have a strong interest in program evaluation, too, but the horizon of the appropriations process is generally too short to encompass a complete evaluation cycle. This is not to say that progress reports to Appropriations Committees are not appropriate. Finally, the Executive Branch, particularly OMB, has ideas on where program evaluation is most needed and would welcome working with the Congress to develop program evaluation plans.

ZERO-BASE REVIEW AND EVALUATION BY THE EXECUTIVE BRANCH

Section 321 of the bill requires the Executive Branch to conduct zero-base review and evaluation every year for about a fourth of the Federal programs. A very complex and technical evaluation would have to be conducted to assess the level of program quality and quantity that could be purchased at various expenditure levels. The results of the reviews conducted by the Executive Branch would be required to be transmitted to the Congress at the same time as the President's annual budget. To accomplish this each year in connection with the annual budget would either very seriously degrade the quality of the regular budget review of the programs not subject to zero-base evaluation—or it would require significantly greater resources and more time than is now available for the budget review process.

If the type of zero-base review and evaluation defined in section 302 of the bill is to be made, program impact levels must be measured accurately—in terms of service output—and related to resource inputs in terms of incremental amounts of budget authority. The initial program analysis and evaluation of this bill coupled with the reauthorization process will suffer the same data and paperwork problems experienced for the Planning-Programming-Budgeting System in the late 1960's. It proved impossible to use effectively the considerable amount of information provided by that system.

The magnitude of this task for most, if not all, programs can be illustrated by the following example of a two-step process.

Step 1.—Measurement of Effort. Determination of the program impact of a specific level of budget authority is frequently so difficult that it is virtually impossible to anticipate how much time it will take to have useful results.

An excellent, though not extraordinary, example of these problems is provided by an elaborate evaluation of Title I of the Elementary and Secondary Education Act (ESEA). The measurement instruments for this evaluation are now undergoing tests. Title I of the ESEA is aimed at meeting the special needs of educationally disadvantaged children. The evaluation study is expected to take 7 years—at a cost of approximately \$7 million for the first 2 years. Design and measurement techniques in such an evaluation present a formidable task due to the diversity of projects that have been undertaken under Title I. State and local educational jurisdictions have taken highly varied and individualized approaches in designing corrective programs for the educationally disadvantaged. Moreover, the measurement of educational attainment is clouded by the absence of standard tests for which there is agreement among educators as to their validity, and by the unavailability of adequate comparison groups. All of these uncertainties about the success of this long-term, expensive evaluation project are set against a background of previous efforts which frequently have been unable to demonstrate conclusive evidence concerning the effect of such special educational programs. The difficulty and expense of measuring program effects is not to be taken lightly.

Step 2.—Production Functions. Even if these vexing measurement problems can be solved—and we are constantly seeking solutions—true zero-base review and evaluation as outlined in the bill, requires a good deal more. It requires relating such efforts to varying dollar and employment levels.

Even with more program impact data than it is reasonable to expect, the development of such production functions would be a challenging analytical task in itself. It is likely that sophisticated mathematical models will be required. We are not aware that such techniques have been successfully developed for any significant social programs, not because of a lack of will on the part of those who have attempted to develop them but because of the great methodological difficulties inherent in them and excessive costs alluded to previously.

At this point, it is not more evaluations, but better evaluations, that are needed.

There are also reservations to the indiscriminate use of the zero-base technique. This technique may be inappropriate to many Federal programs and in such cases less complex, less detailed techniques may better serve the purpose while at the same time requiring fewer resources. A study was made of the indiscriminate use of zero-base budgeting for a whole agency, the Department of Agriculture, some years ago. In the view of one writer a major conclusion of this study was that:

... The main result was a mountain of paper work. The experiment failed both because no one could figure out how to make the comparisons and because no one was willing and able to make the drastic reallocations that would have been required.

It is doubtful that the basic purpose of this bill is best served by requiring in law that across-the-board zero-base evaluations be performed every four years. The resultant lack of flexibility, may not be worth the added emphasis that a statute would provide. It may be that despite its noble intent, enactment of the bill as presently written, would cause more harm than good. It would so systematize a very complex and sensitive process and so diffuse our current efforts to encourage quality evaluations that it might cause a net loss of useable data to evaluate and manage Federal programs.

Nothing now prevents either the Executive Branch or the appropriate legislative committees from conducting zero-base reviews and evaluations of the basic purposes and functions of agency programs.

The Congress should allow the heads of agencies to work with the authorizing committees to determine where evaluations are needed as well as their frequency. It should be possible to impose a discipline without the rigidities and inefficiencies involved in taking the across-the-board statutory requirement approach.

ANNUAL OBJECTIVES INCLUDED IN THE PRESIDENT'S BUDGET

Section 402 requires that the President's Budget include specific annual objectives for each Federal program or activity and an analysis of how the objectives set forth in previous budgets were met. In addition, sections 321 and 311(b) require that the President and the Congress specify—in quantitative terms—the objectives of the programs and activities as part of the four-year reauthorization process.

Considerable care must be taken in the proper development of performance measures. Otherwise, these measures often show how busy people are rather than the cost-benefit of their activity. The development of a meaningful performance measurement requires significant managerial effort and reorientation. In addition, the maintenance of the process requires that Congressional and Executive decisions be based on these analyses or the process will be discredited.

This effort would be staggering. There are more than 1,000 Federal domestic assistance programs alone. The amount of information to be included in the President's budget would be so great that detailed analysis by the OMB and agency staff would—necessarily—give way to “pro forma” examination. OMB policy officials could not possibly do an adequate job of reviewing such a large mass of material and devote the time and effort required during the already overloaded budget review process. Agency accounting systems, many of which are computer based, would have to be redesigned and reprogrammed. These crushing data requirements would be superimposed on those added by the Congressional Budget and Impoundment Control Act, which have stretched the abilities of OMB considerably. The requirements of S. 2925 are more—much more—than the system should be expected to meet.

OVERLAPPING WORK BY THE LEGISLATIVE AND THE EXECUTIVE BRANCHES

The bill requires evaluations to be conducted by Congressional Committees, the GAO, the CBO, and the Executive Branch (Sections 311, 312, and 321). A great deal of overlap would be inevitable. An alternative is to reach an understanding on the design of the evaluation—which should be fully coordinated at the start—then have either the Executive or the Legislative Branches conduct the evaluation and avoid duplication of effort.

SUMMARY

The development of an effective process that provides a systematic mechanism for periodic, full-scale review and evaluation of Federal programs is complex and difficult.

Legislation that provides the flexibility that is needed to make the process work could well be too broad to be meaningful. On the other hand, specificity in the legislation could result in an unduly restrictive and inflexible approach. Rather, it would appear that legislation is not necessary to accomplish needed evaluations.

A more fruitful approach would be to reach agreement with the appropriate legislative committees on a limited number of major program areas that should be evaluated, develop cooperatively a study design for evaluating the programs included in those areas, and then work closely together to make certain that the studies are completed on schedule. OMB could suggest program areas for these committees to consider. It would also make a great deal of sense if the legislative committees were to impose evaluation requirements whenever new programs are instituted or the authorizations for old ones are extended.

This approach differs considerably from the plan outlined in the bill. But it should be possible to find a more appropriate way to accomplish the objectives of this bill without a legislated mechanical, and inflexible approach.

The CHAIRMAN. Thank you very much Mr. O'Neill. I have only one question which is the same one that I directed to Mr. Schick. My experience in working with the budget process this year, last year and the year before leads me to a certain amount of caution such as you mention. I don't want to see a big mountain of paper come up here and when we are finished have the same result we get now. I need to know your suggestions for alternative ways to trigger or select under this process.

I might state, regarding the list of issues you have mentioned, that we have tried to be selective this year in the budget process only because we knew we couldn't do more than a certain number of things. We are having a limited degree of success even with the selectivity we had. Now if we enshrine this into a statute of selective process what are your suggestions as to what is possible? I don't want to over-promise and underproduce in this area.

Mr. O'NEILL. Mr. Chairman, I certainly agree with your concerns and perhaps it would be helpful to start back up the logic stream someplace and talk about what it is this bill seeks to do that is different from what we are now doing.

I think frankly many of those who have talked with such fervor about sunset and zero-base review haven't any idea what the executive budget process is all about. I don't think they know what they are talking about.

In the years I have been in the executive branch I cannot recall one when the sum of spending suggested to the President when he was beginning to formulate his budget was not more than \$20 or \$30 billion more than prudent people would reasonably believe should be spent by the executive branch. Given that circumstance which I frankly do not see changing very dramatically over the next 10 or 15 years, I think the executive branch is always going to be in a position where it must in effect do zero-based budgeting.

We do not have a choice because spending demands on the President overwhelm the amount which fiscal policy indicates can reasonably be spent. I think you see the proof of that in the short list of examples in my prepared statement.

Many of the reform, restructuring, and elimination proposals that have been made by the President, were not easy proposals to make. It would have been much easier to take the easy road and say, "Let's fund all of these things and not offend any interest groups or any committees or any of the other interested parties that have some attachment to these things."

But I think without regard to partisan politics, Presidents have had to, and will have to in the future, practice zero-based budgeting.

If you agree with me in that assessment then it seems to me the correct question is: What is it we are trying to accomplish with this legislation? I do not pretend to be an inside expert on the congressional process. I would offer you a view from the executive point of view and it is this, that what these bills would accomplish if they were successful would be to cause the Congress to ask questions it does not now wish to ask.

I think Mr. Schick said to be safe he wouldn't talk about any programs. I don't think we ought to be safe in considering this legislation because I don't think that this legislation is an innocent or easy change to the process that we have now and therefore I think we ought to be very careful in assessing what it is we are trying to accomplish with it and what its effect would be.

Let me give you an example where the Congress has not been very interested in asking questions that need to be asked. It is one I know you have some experience with. That is, the Public Health Service hospital program, a program created in 1789 when admittedly we had a limited number of hospitals available in the country and we had a problem with our merchant marine bringing infectious diseases back into the country. We had a relatively low-paid merchant marine. So we thought we ought to have a special hospital care system to take care of those people and those problems. In spite of the fact we have a merchant marine that is rather handsomely paid by comparison with most other people in the economy and the fact that we have thousands of general hospitals which can take care of people

and we know how to deal with infectious diseases, we still have eight Public Health Service hospitals run by the Government for a purpose that escapes me. And yet, in spite of efforts beginning in 1965, with Lyndon Johnson, we have not been able to stop doing that job.

As I say, I think if this bill were successful in doing what it proposes to do, we would stop doing that, but only if this legislation were truly to cause the Congress to ask the question, "Why are we doing this at all?"

It frankly is not clear to me with all the ins and outs of the data requirements and the procedural requirements for canceling programs that that essential purpose will be accomplished by this legislation. That is to say, that the right questions will be asked which will lead to the elimination of outmoded, duplicative, or unnecessary programs.

The CHAIRMAN. Thank you very much. I am concerned about it because of what I see occurring in the budget process this year. In a democracy you must learn from the way a process proceeds, not from some theory of what you thought or hoped it was going to do or anything else. What I see occurring is this. There are many programs already in place through either permanent legislation or because they are in areas where they have enormous political clout—and I use that again in a nonpartisan sense. When you place a ceiling on some programs as we do in the budget process, these other long-lived programs survive at the expense of the programs that are required to be appropriated each year.

In other words, the Appropriations Committees and the subcommittees this year in my opinion have done a superb job of meeting spending targets and examining programs, before we voted them up or down. But there is a great mass of spending programs that sit to one side. We in the Budget Committee simply have to accept the rising and falling levels of expenditure except where—and that is the reason for my question—we made a selective determination within the Budget Committee that we ought to try to do something. I think we have not been successful to date.

I would ask you this question for example. We attempted to terminate for future years the GI bill benefits to those in the Volunteer Army. That position got through the House. I don't see it coming back. This involves a considerable amount of money. You mentioned the 1-percent kicker. We got this through two committees, and the issue is still unresolved. That is the reason I asked you how we should deal with the question of selectivity. Right now this question is being addressed in the budget resolution. I am not sure that this is the best forum because, as you and the previous witness pointed out, it requires a legislative result. If we don't get the legislative result then at some point next year when we are in fiscal year 1977 and the ceiling has been applied, and the Appropriations Committee and the executive branch come up for a supplemental, the programs that have to be authorized annually then get squeezed.

I am trying to determine a way to make it fair for all programs that are faced with the ceiling. Maybe it is going to take a year or so for somebody to get hurt before they recognize that. I would appreciate your answer.

MR. O'NEILL. Mr. Chairman, I have thought about it quite a bit. We have been in discussions with the Senate Government Operations Committee that has been looking at this legislation since they began

last February and frankly I have come to the conclusion there is no mechanical way we can force people to ask the right questions.

To take your example, GI bill benefits for postwar volunteer armed services people—it is not clear to me that the fact of the sun setting on the GI bill program would lead to a different result than the one you suggest we may be faced with this year. That is to say, there is nothing in the notion of sunset that will cause the members of the committee to ask why are we doing this and there is nothing in the sunset idea to force them to ask public witnesses to come forward to say that this is a rotten idea.

It really does seem to me that trying to solve what I agree is a very fundamental public problem right now, doesn't seem to be subject to the kind of mechanical process that is suggested by these bills.

There is one thing that we can certainly predict. If the bills are left in their current form, a mountainous process of paperwork will flow from these bills. There is no doubt about that because, if the law is enacted the executive branch will respond—whether it accomplishes anything or not—because it will be the law of the land. But I don't think there is anything built into this legislation the way it has been drafted, nor has anyone identified a way to insure that members ask witnesses who come before them, "Why are we giving you any money at all?" When the witness says, to take a narrow example, because we have an infant mortality problem in the country, to press beyond that and say, all right, I agree with you, infant mortality is too high, we are 13th in the world in our rates. You tell me how the dollars you are proposing to be spent in this program are going to have a direct and decided effect on the problem of infant mortality. Then tell me, Mr. Witness, how it is that we prevent the dollars the Congress appropriates for this infant mortality program from simply replacing dollars that are being spent by State or local governments or by the private sector so that we can see what is going on in the national sense.

One of the difficulties we have had for many years in the way we approach budgeting in this country from a Federal level is an egocentric view that says if we appropriate \$200 million for some purpose, that adds \$200 million to the margin as to what the country is spending in totality. I think you can look at program after program and be hard put to draw the conclusion that dollars appropriated from the Federal till actually end up being 100-cent dollars by the time they were spent through our society. We have been kidding ourselves.

Looking at the witnesses testimony before committee after committee, I find very, very infrequently any indications where the witnesses are put on the spot beyond the kind of superficial first question I suggested.

The CHAIRMAN. Thank you very much.

Do any of the members wish to question the witness?

Mr. Latta.

Mr. LATTI. Mr. O'Neill, I needn't tell you that as far as this Member is concerned your testimony before this committee is always very enlightening. Your testimony this morning is no exception.

To carry forward on what you have been saying, I would like to answer that question, being one who votes "no" probably more than "yes" in this Congress. It is easier from a political standpoint to be

for everything. When they propose an increase in the medical field, you say: "I am for that but I am for more." When they propose something for education, you say: "I am for that but I am for more," or for veterans and others. From a political standpoint that is the way it is.

I say, as one who votes "no," it is a little tougher to go out and be labeled antiveteran or antieducation because you didn't go for that little bit more. We have had the impact aid bill before Congress time after time. Even though they came forward with the B proposal which five Presidents now said should go, that still wasn't enough. They said we have to have a little more. So from a political standpoint that is the answer to the question you propounded.

Let me just go back to what we were talking about: How we can come about with a proposal of zero-base budgeting. Let me throw these at you. Several years ago we had this Hoover Commission which I think worked very well. Out of that came the reorganization procedure under which the executive branch made proposals, submitting them to the Congress, and if the Congress didn't act, they become law. Why couldn't we do something like that with this zero-base budgeting? I will let you comment on that; then I have a few more questions.

Mr. O'NEILL. I am not sure I fully understand the question. Let me see if I can set the stage.

Mr. LATTI. If the Congress would pass some legislation along the lines of the reorganization procedure that came from the Hoover Commission.

Mr. O'NEILL. In other words, the executive branch could propose we stop the impact aid program and if the Congress failed to act within some time certain the administration proposal would automatically become law?

Mr. LATTI. That is correct.

Mr. O'NEILL. Without careful reflection and just an initial reaction, I would think that wouldn't be a bad idea. It would be very nice if we could begin by putting back the reorganization authority which we haven't had since April 1973, which the President had on his list of legislation that he sent to you last week.

Mr. LATTI. We would take this off the backs of a lot of Congressmen that stand for reelection every 2 years and are fearful if they don't go along they might not be back here.

Mr. SMITH. Will the gentleman yield on that point?

Mr. LATTI. Yes.

Mr. SMITH. On this impact aid matter, since 1965 the Presidents have all recommended the B portion but not one of them ever vetoed that bill. There have been a lot of vetoes of other bills but not on impact aid. It seems to me all we have done is add new categories to be eligible for impact aid and if you are going to force some change in that program that would be one of the prime targets for veto.

Mr. O'NEILL. I am searching my memory, Mr. Smith. My recollection is that many of the last 10 years have seen vetoes of the appropriation bill which includes impact aid and it has, as far as I can remember, been singled out every time as a continuation of congressional policy which Presidents have thought was ludicrous.

Mr. SMITH. That is an entitlement program and there hasn't been any veto by any of the three Presidents of the entitlement program, the authorization passed. After it is an entitlement program you don't have the freedom to OMB the way you do with some others, do you?

Mr. O'NEILL. We do not, but I don't recall any instance when the impact aid program has come to the President when it wasn't wrapped around billions of dollars worth of other educational programs. I don't think any President has ever had an opportunity to nail that program as a discreet item. If there is any doubt on the President's view on that, I think he would be delighted to deal with it as a stand-alone issue.

Mr. LATTI. In the interest of preserving time I am going to ask you just one more question. I think you made a good suggestion about having a 4-year program and looking at a fourth of these programs every year. I think that way we could tackle the job that has to be done. I think that is a good suggestion that you made.

Mr. O'NEILL. Mr. Latta, I think it would be very helpful, contrary to what my distinguished friend and colleague Mr. Schick suggests, if we would get beyond the catchwords and the politically attractive symbols of sunset and zero-base review or budgeting or whatever, and select 10 or 15 or 20 programs and put the process to the test out front where people can really see what it is all about and see whether we have courage to take on those harder questions that I suggested earlier rather than just putting on the statute books a law which, as I said earlier, is going to insure that the executive branch will create these mountains of paper but does not begin to insure that we will have a change in the congressional process.

The CHAIRMAN. Mr. Smith.

Mr. SMITH. Mr. O'Neill, I think you are right in suggesting in effect we have the machinery to deal with zero-base budget. Insofar as timely authorizations are concerned, there are two problems that you didn't really address yourself to and one is untimeliness of the authorization. The other is the difference between entitlement programs and the authorization programs which OMB and the Appropriations Committee both have an opportunity to deal with on the zero base.

But with these entitlement programs running on and on and not really coming before the Appropriations Committee in the other process, you being limited in your opportunity to deal with any of them, isn't there a little difference between them?

Mr. O'NEILL. No, sir; I don't think there is, and I don't think the executive branch under President Ford has been limited by any artificial distinction between entitlement programs and those subject to the more general authorization process. I offer you some examples. Food stamps, I think, is a beautiful example. It is an entitlement program. The President hasn't stepped away from that. He said let's reform it.

Mr. SMITH. By the time the courts got through some of these things they were back in place, weren't they?

Mr. O'NEILL. That is right. The courts looked at the Congress, said it is going to get on with reform and said we should wait until that has been accomplished. Unfortunately we haven't gotten on with it in the congressional process.

The President suggested for social security there be some sweeping reforms. The fact that it is an entitlement program didn't slow him down one bit in saying that we ought to adopt the advisory committee recommendations of 1974 and get rid of the open ended possibility that people now have to take an actuarial reduction if they retire at 62, which really defeats the notion of the retirement principle in the system, or from recommending that over a 4-year period we phase out the student benefits.

I can go on and on. The President has not been deterred one iota in recommending reforms because of any artificial distinction between entitlement programs and the more regularly authorized programs.

Mr. SMITH. The fact of the matter is when the courts got through they said there is a difference between entitlement programs and if other programs and even in the case of roads, road funds, and other funds they have overruled when there were entitlements to which people were entitled to try to withhold the money.

Mr. O'NEILL. In the case of the highway program they overruled the President's ability to independently establish a ceiling for the highway programs. Thank God there have been some Members of Congress who have been willing to stand up for putting a ceiling on those trust funds. But once again the President was not deterred by the artificial distinction between entitlement programs and authorized programs. Presidents have come forward over the last 10 years with recommendations for reform. I don't think that one committee can make a case that the executive branch needs an incentive to practice zero-base budgeting. I think we are—without worrying about entitlement or authorization or any of those other distinctions—making proposals to change what the Federal Government is doing but we have not been able to find a sounding board on the other end of the legislative process that says yes, let's go do it.

Mr. SMITH. But that isn't exactly what I am addressing myself to. The point I am making is that we have gotten lists from HEW and from OMB of entitlement programs that the administration says it can't do anything about. I am not challenging that. I don't think you can. But the fact of the matter is there are entitlement programs that have to be dealt with really differently than the regular authorized programs.

Mr. O'NEILL. With that I agree. Let me see if I can deepen the point just a little. What I understand you to be saying now is that the executive branch cannot change the statutory force of entitlement programs. It must carry out the law. I certainly agree with that. But it seems to me that just makes the point very vivid. What we need is not an action-forcing vehicle to get the executive branch to come up with proposals. What we need is something that will cause the Congress to pay attention to those reform proposals and to enact them.

Mr. LATTA. Mr. Chairman.

The CHAIRMAN. Mr. Latta.

Mr. LATTA. Before Mr. O'Neill leaves I just want to say amen to what Mr. O'Neill has said. I quite agree with my friend from Iowa that the entitlement programs can't be cut off abruptly but certainly this Congress can act. We can't point the finger at anybody else. We have to point the finger at ourselves.

The CHAIRMAN. Thank you, Mr. O'Neill, for your contribution this morning. I appreciate very much your being here to testify because,

as you well point out, there is a difference between talking about the concept and getting down to specifics.

Mr. O'NEILL. Thank you very much, Mr. Chairman.

The CHAIRMAN. The committee will now hear from Peter Pyhrr who implemented the Georgia State Government budgeting process. We are most interested since this is a case where zero-based budgeting has worked.

Mr. Pyhrr, it is a great pleasure to have you here this morning and we are looking forward to your testimony.

STATEMENT OF PETER PYHRR, VICE PRESIDENT, ALPHA WIRE CO.

Mr. PYHRR. Thank you very much. I do not have a prepared text. What I would like to do is relate to you some of my experiences with zero base and use that as a framework to addressing two main problems which I think all of you have addressed here today. Problems that both Allen Schick and Paul O'Neill have addressed and were addressed in the testimony with the Senate committee and some of the discussions we had working, especially Allen Schick and myself, with the Subcommittee on Intergovernmental Relations, to draw up a workable bill that would serve the needs of the Congress and the needs of the executive agencies.

Let me drop back to draw perspective to give you a feeling of how zero-base budgeting works, how it was designed, where it has succeeded in most areas, why it has failed in others. At the end of my text I will go back to New Mexico, with which I am well familiar.

Zero-base budgeting, the way the process is now known, is really sort of a new animal originating at Texas Instruments in 1968. Texas Instruments is a large electronics manufacturer. Over a long number of years they have been known as being a textbook case for business schools around the country because of their well-advanced management systems, which were predicated on the high technology type of the industry.

So Texas Instruments started out before my relationship with them, and before the development of zero-base budgeting, as a company that was already noted for its excellent planning and budgeting systems. But I think what tends to happen in those high technology companies, is they develop even better systems to do a job. Prior to the development of zero-base budgeting, we followed the incremental budgeting approach. In some years we looked at decreases from the prior budget, in other years increase. Obviously, during all these times of either increase or decrease on a selective basis because of management understanding and feel of the organization, we would selectively go in and basically do a thorough review of selected program areas.

So when people as knowledgeable as Paul O'Neill, and many other people I have talked to since we started zero base, point to examples of areas they have gone in and done a review, I will certainly agree in selective areas a thorough review has been done. But in my experience, I categorically disagree that the majority of programs, the majority of questions, have been raised.

This has been true from when I started at T.I., when everybody said, "Why do this zero-base budget?"

The answer is we have only done a zero-base review in very selected areas. What the zero-base approach tends to do in a systematic manner is review all operations, review the expenditures of which the majority of expenditures are in the so-called base of on going operations. What we are trying to do is develop a process which basically said two things: No. 1, the budgeting process has to be the focal point of most management analysis and decisionmaking because this process determines how the resources get allocated. Any pragmatic manager knows he should spend his time and effort in something that will produce results, and the budgeting process results in getting money.

So what we are saying is zero base tries to identify the whole iceberg rather than just the tip. In listening to Paul O'Neill, I disagree on some points in the criticism that Congress does not ask the right questions. I would say I agree Congress does not ask all the right questions, as well as OMB. I would also say in agencies all the right questions are not asked because people do not have the information with which to ask questions on all programs.

Also with a feel the Congress may have or the President may have or agency directors may have, they have predetermined problem areas as they may wish to select. Part of this may be on specific problems that arise, or arise specific pieces of information. But my contention is that there are a great deal of problems which never surface, and the purpose of zero-base budget is to try to surface these questions for review at all levels, of which the first level has to be within the agency.

Problems may also be raised at the Presidential level or OMB or in the Congress, but I think the majority of these questions have to surface out of the agencies in some way so that existing staffs at all levels of government can handle the analysis and paperwork.

I will get into the question of selectivity and paperwork in a minute, but I would like to drop back and talk a little more about the practical implementation of zero-base budgeting. As I go through this, please feel free to ask questions rather than holding them to the end if you prefer.

There are two basic users of zero-base budgeting. The first user that I will mention is to me the key user and probably has the longest term and most beneficial impact in either Government or industry. That is the man responsible for operating the program or activity, or whatever you wish to call it. This is why this budgeting was developed at Texas Instruments, not the president or board of directors level. It—zero base—was developed in two operating divisions because we had problems that we could not address through the typical management or budgeting techniques.

I think what we found in the State of Georgia, selective agencies in the State of Illinois, most other States which are now starting to use the process, and in most industries, this zero base is primarily an operating tool of your line managers.

I think part of this gets into the question of workload. The question that has been raised continuously is how can the existing staffs in the Congress—and I will expand that to include the executive, OMB, and all the large agencies—handle the clerical tasks of trying to identify what is happening, what the alternatives are, how efficient and how effective the programs are. The answer is no staff at any level can

answer all these questions. What we have found is the man who is most knowledgeable, and actually can provide many innovative suggestions if he is given the opportunity and the challenge of doing so, is the man who knows the problem and who has operational responsibility for the program. To me, as a management philosophy, it should be his basic function, if not the most important one, to effectively plan and evaluate his program.

So one of the questions is the workload question. What we are trying to do is take that workload of 90 percent to identify what is happening and put that workload on the program manager where it belongs. We can then free the existing staffs to spend the majority of their time on analysis.

For example, when we were working in the State of Georgia, I happened to spend a lot of time in mental health institutions and prisons because these were the toughest areas to get at and the toughest to evaluate. We found that we had many problems within the institutions that typically never surfaced. What happened is that over a period of years there was an inflationary increase to some of the institutions. One of the favorite strategies in any State or in Federal Government tends to be to run the press through the institution prior to appropriations or authorization hearings. Part of what we found in Georgia and Illinois, throughout institutions in all levels of government, city and State, is that in many cases the cries of inadequate rehabilitation services was absolutely true. But part of the redirection that has happened in zero-base budgeting, which doesn't always appear at the surface, and is not always at a conscious level of top level executives and legislative bodies, is that there can be massive redistributions within institutions, pulling unnecessary maintenance costs out and redirecting these same moneys into more effective and additional services.

For example, in the *Milledgeville* case they got the traditional inflationary increase. However, rehabilitation increased by four times throughout the institution. We found this happening throughout the States, whether they were mental health or prison institutions. So part of the benefits that occur from zero base are really subsurface that may not approach the congressional level of decision that has to be made.

What zero base will certainly do in the long term, it will tend to reduce the inflationary nature of spending in those areas.

Now, the second use of zero-base budgeting is certainly at the top-level management of whatever organization you are talking about. In industry, it is at the division level, the presidential level, the board of directors. Certainly in Government I will put into that category of top management, if you will forgive me, both executive and legislative bodies because both really have the same problem. Both have certainly different viewpoints but have limited resources by which to get down and discover what is happening with the agencies and evaluate the effectiveness of the programs and efficiency of the expenditures.

We are taking a look at another set of users. In my mind, the zero-base budgeting is an internal agency mechanism which basically identifies program efficiency and effectiveness, takes a look at different ways to deliver similar services. This internal agency analysis leads to a macroeconomic summary for the top level executive analysis.

This macroeconomic summary basically focuses at direction of resources and sort of a macroeconomic program evaluation. So I see this process as a feeding mechanism, the basis of the data coming from the agencies, being summarized at agency levels and presented to the executive and legislative committees.

However, there is total independence of both OMB, the President, the Congress, to disagree with policies, to disagree with some of the analysis presented. But I think the Congress and OMB will find with this information provided to them, they can much more effectively select those issues which they wish to focus their time on.

In the workload question I should also add that in my experience in any industry or any State government that has implemented zero-base budgeting, there has been no additional increase in staff. The only qualification I will have to say is in Georgia, in each case I was added for a period of about 9 months. We decided at that stage to implement the process throughout the whole State the first year.

So I think that what we have found at all staff levels is that the budget staffs have determined that zero-base budget is one of the most powerful tools they could ever be given, primarily because it surfaced so many questions and so many problems within the agencies that they could now focus their attention on the problem areas rather than being inundated with reams of numbers which they did not know how to evaluate.

The disappointing thing about some of those reams of numbers that tend to boggle the mind of anyone at this level of government, certainly in the Congress or OMB, and even so in the big agencies—is that the reams of numbers do not focus on the key policy issues, or program delivery issues. So the agencies have a problem, the problem is compounded at higher levels, at OMB and Congress, so what we are trying to do is develop a system which will not add significantly to any staffs, but will provide a system which is an ongoing management process developed primarily in the agencies with the overview at both OMB and congressional levels.

What we are trying to do with zero base is develop an analysis, and if you can take a look at the components of the analysis which are identified in the Senate bill 2925, it is basically a macroeconomic view of what would happen at lower organization levels within the agencies. The two critical elements of zero-base budgeting is an analysis that we call a decision package, and the second part is a setting of priorities. Those priorities which have initially been set at the agency levels can obviously be modified at either OMB or congressional levels. The key is the analysis in what we call the decision package, which does a variety of things, none of which are new. The main difference is that the analysis has been wrapped together in a process which is a little bit broader than the traditional budget process, which tends to be a number-oriented clerical task, into a process which brings in several components: Such as identification and establishment of objectives, which should identify duplicate programs which may tend to serve the same constituencies; description of the proposed programs; quantitative workload performance measures: What kind of population has a given program been serving, how effective has it been in program delivery?

There are two key items in the decision package analysis. One is an identification of alternatives of different ways of program delivery—taking a look at the best way of delivering services. In this process what we have done is given the incentive to program managers to identify the best way to deliver the program, whether this be the method that has been going on for the last 50 or 100 years, or a new method.

What we found in this analysis and what I think a major advantage, as viewed from program managers who may have had the tendency of telling the administration for years and years “we are not getting the money’s worth and we ought to redirect the program,” and therefore become quite often disillusioned, that they now have a golden opportunity to identify and commit to improving a program, changing method of delivery, improving perhaps cost effectiveness as well as delivery. They are going to stand behind those recommendations and they have a ready opportunity to make those recommendations and changes.

The other thing that we are going to look at is different levels of funding, of which one level is obviously zero. What happens if we eliminate the program? However, being pragmatic people, we know we will find a few of those, but certainly we are not going to eliminate the majority of Government programs. What we may want to do is reduce the program level, either because the workload has decreased or because we have started to solve problems. What tends to happen is that you keep the same staff that existed at the peak of the problem and the workload maintain and that funding and those people levels.

So we want to take a look at a level of funding less than current. bring funding above current levels. In doing this, in taking a look a different cost levels and different benefits we receive from those cost levels, we now have a large variety of alternatives in which the agency can recommend their priorities—priorities can be reviewed or modified by both OMB and the Congress.

Once we have an analysis of each program and activity, we come to a ranking process or prioritization process by which we want to find out where different levels of organizations wish to spend their funds. Since we have a limited amount of funds, we have often found that agencies have come up with rather major shifts in where they want to spend their money. They might want to take funds out of an area where the problem has been reduced, or because of changes in policies or priorities they wish to reduce funding in order to fund today’s current problem.

Agencies can fund today’s current problem and address it partially or even wholly by reducing or eliminating those programs which are now no longer justified in the set of priorities.

How do we review all this? How do we take some decision packages which identify a very sophisticated, if done correctly, analysis, how do we then review these and the priorities set by the agencies?

I said in the beginning I don’t think any of us are smart enough to know before we take a look at an area all the questions to ask. I don’t think anybody is that smart in the Congress, or in the OMB, or in the agencies.

I think what we have found is as these decision packages and priorities have surfaced, many, many questions have popped to the surface that no one anticipated. For example, in Jimmy Carter’s first review,

which is our first experience with such a massive volume, we found the budget staff at the State was very capable in its preliminary working analysis with the agencies to identify the key policy issues and questions which should have been raised. I think all major organizations work this way in some degree because you cannot at this level look at everything in a major organization. So what you are basically doing is giving the staffs a tremendous base of information which they can spend 90 percent of their time analyzing, rather than only 10 percent analyzing and 90 percent factfinding, to identify not only the issues they have been directed to investigate, but other issues which will sort of work their way out of the woodwork as problem areas.

Many of these problems will be identified and highlighted by the agencies.

The CHAIRMAN. Mr. Pyhrr, we have to go vote. I apologize for this. I will return with whatever members of the committee can come back from the floor. Is your time such that you can wait for a few more minutes?

Mr. PYHRR. Certainly. Be happy to.

The CHAIRMAN. We will stand in recess for 10 minutes.

[After recess.]

The CHAIRMAN. The committee will come to order.

Mr. Pyhrr, we did want to complete your testimony this morning and if you want to continue, why then, please proceed.

Mr. PYHRR. I would just like to make a couple of overall observations with the basic part of the testimony and then just focus on about three key items that were raised and are key concerns.

No. 1, in going back to Allen Schick's comments on what expectations we should have, should with such a process as presently envisioned come into being, I think what we have found is the zero-base review or budgeting process is an evolution process. We are not adequately knowledgeable of all programs to begin with, and we will raise many, many questions which we will not be able to immediately resolve.

What we have found in the first year of implementation of any governmental organization I have been involved with, we have raised many more questions than we had answers for.

What we have done is focus on those questions and tried to come up with a solution which may be accomplished during the immediate year before the budgets are finalized, or more frequently over a period of years.

I think a very interesting example, and satisfying example to me, relates to something I heard in Illinois 3 years after my Georgia experience. When we were first in Georgia, the first year of Jimmy Carter's administration, we did exactly what I said, raised a lot more questions than answers. One of the questions we raised was in the welfare area in the social services programs, where we had no data or mechanism to evaluate workload and performance of social service programs throughout the State. We had had the problem, didn't have any answers, which put us in sort of a tough position to make budgetary decisions. We set aside some money to try to develop a social service recording system to identify where these millions of dollars were spent, and how effectively. I happened to be doing work about 3 years later in the State of Illinois where they have installed zero-base budgeting throughout their correctional system and were testing it in

their welfare department. I ran into a major project effort which was funded by HEW that was installing a social service reporting system around a variety of States throughout the United States. The model they were using for this was Georgia. So what we did in Georgia was identify the problem. We didn't have a solution, but knew it was worthwhile to get the answers, so we set aside appropriate moneys. In the long-term attempt it was a very excellent investment and was used as a model throughout many States.

The other thing that I would like to discuss, which was raised during Allen Schick's testimony is what happened in New Mexico. It failed there. I think as any pragmatic manager regardless of what is proposed, we need to take a look at the weak points as well as the strengths of a system, and learn from others' mistakes to make sure we don't repeat them.

What happened in New Mexico is a classic example of what can happen when the executive agencies or the executive offices are pulling in one direction and the legislative in another. I will come back and emphasize this point in my summary.

In New Mexico you had a strong legislative budget staff who wanted to implement zero-base budget and an executive staff that did not want to. Therefore the agencies were given two completely different sets of budget instructions and they had to prepare two budgets. I pity the agency managers who had to do that.

One of the reasons of it failing was that the main proponent in the legislature retired in about the second year of implementation. So some of the basic incentives on the legislative side were reduced, and all of the problems therefore overwhelmed the process.

The other part of the problem was maybe a technical one, but yet a significant one nonetheless, and that is the way the process was physically administered and that the design of the forms and budget manuals was extremely poor. Although it is perhaps not the appropriate question to address at this level, I think as in any system, effective design of a system—if it is a good system—will help it succeed. The ineffective design of a good system will almost surely result in failure. As we take a look at the implementation, or the decision to implement both the sunset law and the zero-base review in the Federal Government, I think we need to keep these points very much in mind.

What I am encouraged to see so far is that there appears to be strong support, bipartisan support, in the legislature for this type of program. I think this type of program needs bipartisan support. It should not be a Democratic system versus a Republican system. I think also as we get into this, if it is to work, it must be embraced both by the legislature and the executive so that we have one system in the United States that everyone will learn to use, rather than a multitude of systems of which some people use one system, some use another.

What happens in the agencies is that different systems absolutely kill them. It gets them involved in a paperwork machine that will doom the best of processes to failure.

Also, in designing the paperwork system I have a great sensitivity, because I have been at the other end of the stick on the workload end, to insure that the amount of paperwork is reduced. I think that everybody has mentioned this problem and it is a very valid concern. However, when we take a look at whether zero-base budgets produced more

paperwork, we have to compare it with the paperwork which already exists, and my experience is that it has not produced more paperwork. In some cases it has saved a great deal of paperwork, but this saving was predicated on revising some other systems which were duplicative or which were not justified after zero base has been introduced. So there has been a very conscious effort in all my experiences to reduce other paperwork considered nonproductive. So in total we have reduced the amount of paperwork.

Also within the agencies, once you talk to some of the people at the program levels and below, what we find out in the budgeting systems is that there are a variety of systems within agencies that are different among agencies. If you talk to some of the program people they may have two systems they budget: One, they use internally and one they pass to the top of the agency.

There are a variety of systems. To successfully implement zero base you must eliminate those duplicative systems, and in some cases conflicting systems, with a comprehensive zero-base system which can be designed to meet the needs of each agency. There is nothing that says one set of forms or instructions needs to be used in each agency because we have found in States around the country, or among different agencies, there are slightly different needs which we allowed each agency to incorporate to meet their internal needs as well as the needs of the executive or legislative branches.

That takes care, I believe, of paperwork. Let me go to the workload of the staff question. I will repeat a comment that I made previously, that to my knowledge none of the States or none of the industrial organizations that have implemented zero-base budgeting have added significantly to their staffs. With the amount of information developed by the agencies the staffs can then use this information and cover a much wider ground in the same period of time, selectively identifying those areas which they wish to focus on.

I think the selectivity question is a natural evolutionary process and I have found that staffs have felt much more comfortable with zero base because they can spend the majority of their time picking out policy issues they wish to focus on rather than mere fact finding, which is the bulk of the time most staffs usually spend their time on the traditional budgeting process.

I think that zero-base budgeting has a variety of incentives, and to implement such a system in such a massive bureaucratic organization such as the Federal Government, we need a variety of incentives, some of which are carrot and some of which are stick.

I believe that the proposed legislation has some of both. I believe that zero base offers a major incentive to management within the agencies. Rather than looking at zero base as a negative or a threat, which happens in some areas and maybe is the initial reaction to a process such as zero base which challenges what has gone on in the past and does not automatically assume everything in the past is well and good, there are many managers throughout Government who want to do an effective job. They have good ideas. What zero base does is provide an incentive for them and an opportunity to evaluate their programs in a positive sense, to make changes, to increase their program effectiveness, and to have a say in what they do, how they do it, and what their priorities should be.

I think one of the biggest frustrations of any manager trying to do his best job is that he cannot impact the system. He gets locked into a system that over a period of time, if he cannot change, does one of two things: No. 1, he leaves, or, No. 2, he gets indifferent to the system itself and to the job he is trying to do.

I think a zero-base system can be an incentive. We are not looking in Government to using a system to eliminate or fire Government employees, although it may be used that way in some businesses. Both in industry and Government the predominant feeling is to take areas where programs have been reduced and take those funds and people and transfer them into other programs which are increasing in scope or to replace turnover.

In Georgia, Governor Carter made a decision he would not fire Government employees. The majority of some major organizational changes and some major redirections of programs and funds from one program into another were accomplished through a variety of methods. The major method was transferring people from one program area into another where there were comparable skills, No. 2, retraining where possible, No. 3, turnover took its fair toll. No. 4, after all those alternatives, what we did was redline positions, saying on an ongoing basis, once this position turns over, it will not be refilled.

So hopefully these types of implementation procedures will eliminate the threat of job loss of an employee who is doing his best to perform, and will show him only the side which says here is a mechanism to give you a better tool to do a better job and to have a major say in how a program should be implemented.

On the stick side of it, which we also need a bit of to countereact those forces which do not like to see changes, I think we have a stick in the sunset provision. The stick is one on both the executive and the legislative bodies that says that over a certain period of time we are going to force ourselves to zero an authorization and reconsider. I think that this is a tremendous incentive to make all of us review programs on a systematic basis. It is a tremendous incentive and reinforcement for zero base because agencies will know they have to present a well thought-out case to have their authorization approved or to generate the authorization from zero. This is a tremendous incentive for any manager, for any individual to do a good job to present his case.

Obviously even with this we are still not taking away the independence. Although we may have one zero-base budgeting system used in the executive and agency levels, this does not take away any independence of the groups because although we are providing an analysis which in some cases may be biased by the agencies, we have the energies to go back and challenge those biases.

We have the information to pick out key policy issues which are stated and recommended that individuals may disagree with, so that there is no mechanism built into this system which says we cannot go back to the agencies or we do not have the information to overturn policy recommendations coming out of the agencies or coming out of OMB. So I think the legislature does not lose anything in working with the executive for one uniform process for the Federal Government, but I think the process of zero-base review is sort of a macro-economic program review for the OMB and legislative level.

The zero-base budget, which is more of a micro review and the zero-base review are all self-supporting systems. Each system, in and of itself, lends to the success of the other systems. So I think that what Congress is presented with is a workable package, which can succeed with some intelligent and well-thought-out management of the process, which is needed for any system to succeed. I think the basics are there, and from my employment as a professional manager and as an individual who has had an opportunity to be deeply involved in this, and also as a taxpayer, I think that the package that is being proposed is a very workable one. With the good efforts of people throughout the Federal Government, and both the Congress and executive branch, the agencies who will bear the brunt of the analysis responsibilities, it will be a very workable system.

The CHAIRMAN. Thank you very much, Mr. Phyrre, for an excellent presentation.

Mrs. Holt.

Mrs. HOLT. Thank you, Mr. Chairman. It certainly was an excellent presentation.

I think you have spelled out your views very well.

One thing I would like you to repeat for me very briefly was your example of the *Milledgeville* case.

Mr. PHYRRE. Milledgeville was the biggest mental health institution in Georgia. When I was there I believe it had 7,000 patients. It was, from a political standpoint, what I guess I might term a hot potato. It was a very sensitive subject. With limited resources throughout the whole mental health program throughout the State, there is really a question, of No. 1, how much are we going to spend and No. 2, where are you going to spend it. The way the final result came out in Milledgeville, the first year I was there, they got approximately the same amount of money they had traditionally: A 6- or 7-percent increase. What we did is we increased by a magnitude of 4 times the amount of rehabilitative services that institution provided per patient by reorienting some moneys from other operations into rehabilitation. I give you an example in the area of pathology. Doctors are very sensitive when you get into medical areas. When we got there they had three pathologists.

I know absolutely nothing about pathology, but in comparing Milledgeville to other institutions, and doing a little bit of outside discussion with other pathologists we found there were major differences in workload among hospitals. We found we could only justify the need for one pathologist where we had three. In a couple of other hospitals they were woefully understaffed and normally would have hired pathologists. What we did was transfer the pathologists out of Milledgeville to other hospitals who would have hired them anyway.

We did the same thing in other services. In the little town right next door they had a fire department and one on the premises. The typical argument presented to the legislature is the horror of what would happen if they had a fire at the hospital. Everybody conjured up visions of patients jumping out windows. This was the traditional method by which they justified their existence. What we ended up doing was make negotiations with the local town who could provide adequate equipment which reduced another piece of funding which then went into rehabilitation.

It is not any one specific thing which saved millions and millions of dollars in this example but it came from a piece of departments and operation in the hospital and was reoriented.

The thing that was encouraging about it was a lot of this was done by the hospitals themselves. They had never had any system which brought these things to the surface. You have other examples where they do save millions of dollars in one shot. At that time another example in the health area is the question of community mental health centers versus institutions.

At that stage, in 1970-71, community mental health was not the program that it is today. People did not rush into a community mental health program. But it didn't take us long looking at the cost per patient in the institution, for which they just finished six regional hospitals, versus a very embryonic community mental health program just getting started, which had nobody backing it or pushing it. We saw this from a State level looking over the whole program, and totally shifted the direction of the State from institutions to community. Other States also have seen this. But zero-base brought it to our attention in Georgia. And there are all types of examples we can find throughout different organizations that when we started out, where nobody knew the problems, and the system brought problems to the surface.

Mrs. HOLT. Thank you very much.

The CHAIRMAN. Thank you.

I have just one question concerning the mechanics of this process. I directed this same question to the prior two witnesses. You have given me a different insight on how you would set up your sunset provisions.

Suppose we gave the executive branch the opportunity to come up with a list of proposed changes. The Congress would then have a period of time to reject them. By proposed changes I mean a proposed series of areas to be triggered for sunset-style termination. The alternative, of course, is for Congress to create its own list.

Would this be a way of determining the sunset rotation, because what you seem to be saying is that the way that the system works for the executive side is to have the areas of necessary examination filter up from the program managers. Is that what you are saying?

Mr. PYHRR. I think that what we find out of the system is that—let's take it in each of the steps. Let's start at the agency who initiates the bulk of the data. They would put forth an analysis based on a zero-base budget, which would be a program review or summary called the zero-base review, as per the existing legislation, which is to the program level. In this review they would identify major changes in policies, changes in objectives, overlapping objectives among programs, identify major shifts in policy or operations, or shifts in funding, in those programs that they are proposing. So you would have focused in a very concise way for the executive branch, or for the legislative branch, what their recommendations and changes were.

The executive branch, after they received the agency analysis, can either accept or reject, or modify, the agency recommendations. They would then submit a modified set of a zero-base review to the legislature, identifying the major changes from the existing programs. So that the legislature would be given in summary an identification of major changes in policy operations, funding levels, which they could

review, and accept or reject. They would also have the base data to back in and raise their own questions. So the answer is, yes.

The CHAIRMAN. How do you physically transfer the information from the operating level to the higher levels in an organization as big as the Federal Government?

Mr. PYHRR. The basic timing procedure follows the existing budget procedures within the agencies. The agencies develop their internal budgets prior to focusing on an agency level submission to OMB. So most of the big agencies start internally at a lower level first, and naturally build up prior to submission to OMB.

The CHAIRMAN. Now, how would you change what they do now to implement what you propose at that level?

Mr. PYHRR. I would not change the timing at all.

The CHAIRMAN. How would you change the submission form?

Mr. PYHRR. The submission form would be zero base, rather than the traditional incremental budget. So I am saying I would keep the same time sequence that exists. I would change the content of the budget submissions to zero base.

The CHAIRMAN. All right.

Now, shifting from the mechanics at this level to the substance at that level, how do you produce a change in the budget process so that the program manager or the person operating at that level is not made so vulnerable to the clientele that the program manager is dealing with. Will his decisions be affected by fear of losing a job or having more difficulty with the clientele they are involved with?

Mr. PYHRR. OK.

The CHAIRMAN. How do you know whether you are getting good information from the lower level. Do you try it for a while, and see what happens?

Mr. PYHRR. I guess there are two ways to answer that. Right now, the same thing, the same prejudice, whether you think prejudice is good or bad, takes place within the agencies, although you do not see it.

You see reams of numbers coming up. You have no idea what decisions have or have not been made.

The CHAIRMAN. An agreed upon position.

Mr. PYHRR. You do not know what the position that has been agreed upon is in most cases.

The CHAIRMAN. And we have never been supplied with that information by any executive. What happens, then, is that you do get a coherent presentation of budget issues. This is not surprising considering the number of agencies there are in the Federal Government, and the numbers that are involved.

Mr. PYHRR. Absolutely.

The CHAIRMAN. Do you do it anonymously at the program levels, or do you expose everybody to their people above and people below?

Mr. PYHRR. Basically you expose the people for whatever their prejudices are. During the traditional budgeting processes, you do not have an identification of the decisions that are made and built into the budget. But I would also say that problem, although perhaps less severe, exists at OMB, and exists within the agencies. In all the organizations that I have dealt with, the amount of education that managers, who may have been in departments for their whole career, for 20 or 30 years, the amount of information they found out during

the first zero-base budgeting process most of them have said it is more than they have learned in their experience in the agency, because all—what happens—even if there is very poor analysis—as long as you get the identification of what is going on at a reasonably low level, so that it is not hidden, then you are a step ahead.

Then the question is, how good is the analysis, or what is the bias of the individuals?

The CHAIRMAN. Before you turn to that, how good is the underlying information?

Mr. PYHRR. We have found in the past that because of the way it has been formatted, and knowing that there is a threat of people checking on the information since it is explicitly stated, either by the agency themselves, or certainly in this case the GAO might have a role to play in that—but let's forget GAO, that agency should be reasonably well self-administered. Most managers won't go along with known falsehoods, either because they are good managers or because they are afraid of being caught. If it is on a piece of paper, that means you, or I, or any individual could go pick it up, and challenge the information. As long as it is explicitly stated, it is very difficult to falsify, or certainly much more difficult to falsify, because it is easy enough to check.

So we have found that although, when I entered Georgia, for example, I was deathly afraid of that same problem, but that problem did not materialize—that the agencies pretty well policed themselves, and the information was straightforward enough that it did not take a lot of analysis to say something doesn't look right. So we did not have that problem.

The CHAIRMAN. The reason that I asked about the quality of the underlying information is that I served in the executive branch, in the Department of Justice, and I guess I would qualify as what you would call a program manager. I was a U.S. attorney running a particular office—so many assistant attorneys, so many secretaries, so many clerical people, with a budget to be presented. I know this repeats itself over a myriad of areas. I use this as an example only because it's an area I am familiar with.

You would then be relying upon me as a U.S. attorney to say, which happened to be the case, we are going to condemn the highway, so we need a landman. But we should not be handling all these cases below \$500, because you are never going to catch the people anyway, so we ought to settle all those cases for whatever money you can get and clean our docket. And that would be submitted as part of the budget presentation of how many lawyers, how many secretaries, and how many clerks. Is that what you are talking about?

Mr. PYHRR. Yes.

The CHAIRMAN. I am just trying to look at the mechanics of what physically occurs out there.

Mr. PYHRR. The answer is yes. But let me take you, if I can, a step further, and raise the questions that would be raised to you. So let me just reverse roles here a second, if we might.

And looking at you, as a program manager, I would probably—I would ask you the following questions on this program.

What alternatives do you have to deliver it?

Should this be implemented from a Federal standpoint or local?

The CHAIRMAN. Is this in your form?

Mr. PYHRR. Yes, built into the form.

The CHAIRMAN. And how low a level does that go to?

Mr. PYHRR. It would go down——

The CHAIRMAN. I'm up here in an apparatus which just staggers my imagination. There is an incredible number of people in the Federal Government doing all kinds of things, some good, some bad, and some in between. That is why we are concerned about the paper-work problem.

Mr. PYHRR. We would probably start out, and we have in the States, going down within the agencies to whatever the agency defines as a budget unit.

The CHAIRMAN. As a budget what?

Mr. PYHRR. Budget unit—which probably is below the activity of your program level, the way the legislation is written. This information would be analyzed by the budget unit manager, submitted to the program manager, who would then provide the overview analysis on the entire program or activity. That is the document which would then pass up into OMB or the legislature.

However, all those internal agency analyses, which is the basis of the analysis, would be available to anyone who wanted to go back and take a look at it. Or it could be submitted as a part of the total submission if desirable.

The CHAIRMAN. Suppose you conflict?

Mr. PYHRR. Conflict with what?

The CHAIRMAN. Let's say in the defense area, for example, which I mention because you have three obvious areas that always fight—Air Force, Army, and Navy. They fight in the sense that they each want their share of the total budget. The budget program manager for tactical aircraft is likely to say, "We need them to do this, and they will cost that amount," and then the program manager for the unit next to it says, "We need this many aircraft and they ought to do that." And the two come up. Those produce some classic fights up here on Capitol Hill—where everybody lines up behind their own. That is what I mean by "conflict." There will be so much money available, and both want it.

Now, probably if I spend enough time I could dream one up for you in education. Whether or not the money should go into the handicapped area or into the gifted child area, for example. Now, where do you reconcile if you have all that material?

Mr. PYHRR. Let us go back again into the base——

Mrs. HOLT. Mr. Chairman—would you let me add one thing at this point, because I think this is what we were talking about earlier.

Where do you provide the incentive, because that is the key to the thing. There has to be some incentive to accomplish what we are trying to accomplish. Otherwise, you are going to have this conflict right down the line. We see it over and over in the Federal Government. We build the outreach programs into everything we legislate here, and so therefore there is an incentive to increase, to continue, to grow bigger.

So I am not sure I understand where your carrot and stick fit in this process that we are talking about right now.

Mr. PYHRR. OK. Let me see if I can continue the hypothesis, and try to envision with you how this might work.

Let's assume that each of the program managers that we talked about, the three, who are then going to come to a conflict at some stage, have an incentive and believe in their programs, and have an incentive to evaluate it, recommend it, and would obviously like additional funds. Now the analysis that you come out of zero-base budgeting would take a look within each of the three areas—let's keep the three separate now—identify what happened if you eliminated it, what would happen at a lower level of funding than current, current level of funding, or some increased levels of funding. So now this program manager is identifying his alternatives, or identifying what the consequences are, and benefits are, of different levels of funding.

The CHAIRMAN. He must answer all four.

Mr. PYHRR. He must answer all. He must also identify what other alternatives are available.

The Navy has a similar program or something like that. In your case, in the judicial part it might have been maybe the States should be doing it rather than the Federal Government. What is the objective of the program in the first place? We didn't talk about that. Maybe the objective is not valid. Maybe you should not cut off at \$500. Maybe what you should say is at a minimum level I will cut off at \$500,000, and I only have to have so many lawyers for that. Then the question at a higher level of lawyers, higher level of spending is I am going to cut off at a lower level and take cases at \$100,000 and above. This is what we start to see coming out of the analysis.

Somewhere in that organization in the Department of Defense, you have some individual or group responsible for all three programs. And we put the burden of proof on them to rank in priority order the programs of these three organizations. They do not end up saying group 1 is first priority, group 2 is second, and group 3 is last priority. What they basically have to do is take the increments in the package, and say, "At a reduced level of spending for this one area, that is my top priority." So what they have to do is successively rank in order of decreasing importance what they consider to be the most important programs in increments of expenditure, and increments of benefit.

Now, obviously, if they present 20 decision packages, of which you have these three air arms, or whatever, broken up into pieces, they would probably like all 20.

The CHAIRMAN. No question about that.

Mr. PYHRR. The question is: What you forced on them was to say which was most important. So even though you did not give them all 20, assuming you bought their argument on priorities, which you don't have to do, you eliminate the biggest problem, their biggest complaint. They will always complain they didn't get enough money. But an even more severe point to me, is, "You gave it to me in the wrong places. You didn't give me enough money, plus you gave it to me in the wrong places." So you are putting the burden on them to say, "Here are our priorities."

What you also find out with the kind of analysis we are asking that in Georgia, for example, the amount of increases requested were 50 percent less than the prior year. And the Governor did not give them anywhere near that. But I am saying the amount of increase that the agencies came forth with were 50 percent less.

Paul O'Neill talks about the Federal Government at the OMB level gets 20-, 30-, 40-percent increase, which the President automatically cuts. But the name of the game is in incremental budgeting the more you ask for, the more you are going to get, because you wear them down. And there is not a State budget agency, a Federal budget agency, or city or industrial budget agency that does not take requests and pare them down. In incremental budgeting the name of the game is you request more, you get more.

In zero base, you find out with the analysis we are asking for that some of those increases look stupid. And what managers quickly learn is if they look stupid in one area, because they request ridiculous increases which they cannot justify on a programmatic and evaluation basis, everybody else will think all their other programs are the same way. So what they do is police themselves, because they do not like to look stupid. None of us likes to appear ridiculous. If you are submitting numbers, it is easy to crank in all kinds of people increases, cost increases, because you are not forced to really evaluate and justify it.

So zero-base does an awful lot of its own policing. And we are putting the burden back on the agencies to say, "You recommended the priorities, you show us the analysis, and we can then determine the level of funding."

The CHAIRMAN. Mr. Pyhrr, I want to thank you. You have made an excellent presentation. I'm particularly pleased that you have gone into the details of some of the very practical ways in which it has worked, and explained where it has worked, and where it has not, because that is one of the things that concerns me. I have learned that if the process is flawed, no amount of good wishes or good intentions will make it succeed. And I appreciate what you have said to us this morning. I think it was excellent.

Mr. PYHRR. Thank you.

The CHAIRMAN. We will continue hearings tomorrow. We will hear testimony beginning at 10 a.m., from Sam Hughes, the Assistant Comptroller General, and William Gorham, president of the Urban Institute.

The task force will stand in recess until 10 o'clock tomorrow morning.

[Whereupon, at 1:25 p.m., the task force adjourned to reconvene at 10 a.m., Wednesday, July 28, 1976.]

ZERO-BASE BUDGET LEGISLATION

WEDNESDAY, JULY 28, 1976

HOUSE OF REPRESENTATIVES,
TASK FORCE ON BUDGET PROCESS,
COMMITTEE ON THE BUDGET,
Washington, D.C.

The task force met, pursuant to notice, at 10:30 a.m., in room 210, Cannon House Office Building, Hon. Brock Adams (chairman of the task force), presiding.

The CHAIRMAN. The task force will come to order.

The purpose of the hearing this morning is to continue the task force efforts to develop a position on the so-called sunset and zero-base budgeting legislation, which has been introduced in both the House and the Senate. It directly involves the budget process. As I stated yesterday, I believe it will probably be an essential part of maintaining budget control in future years, because it deals with one of the areas that presently is giving the committee the most difficulty. I am talking about the so-called mandatory spending for the continuing programs that are not passed on by the Congress each year.

One such area is the 1-percent kicker. The House has overwhelmingly indicated that they wish to change this legislation but we are having difficulty moving the bill out of committee.

Other problem areas include whether or not there should be an extension of the GI bill, and placing some kind of control on the Highway Trust Fund outlay amounts this year, which could vary as much as \$4 billion.

Mr. Hughes, we are looking forward to having you testify this morning. We have heard testimony from both proponents and opponents of zero-base budgeting and sunset legislation. Yesterday we had representatives from OMB and from the State governments that had used this system. Mr. Pyhrr worked with the Georgia system, and testified on various State operations. We know you have a great deal of expertise. I want to personally thank you for coming this morning. I am pleased to hear your statement.

STATEMENT OF HON. PHILLIP S. HUGHES, ASSISTANT COMPTROLLER GENERAL OF THE UNITED STATES

Mr. HUGHES. Thank you very much, Mr. Chairman.
We are very pleased to have this opportunity.

While it is difficult to classify people, we are somewhere between proponent and opponent. We think there are some very useful techniques here.

We think, though, that neither the zero-base review process nor the sunset process represent a magic solution to some of these problems, and that they need to be integrated into some of the ongoing processes to make sure that things that are working are not loused up in one way or another.

We have studied bills which address these topics with a great deal of interest and we, like almost everyone, fully agree with their purpose of improving oversight over Federal programs. The bills which are designed to concentrate attention on what the Federal Government is doing in an entire policy area seem to us to be particularly interesting and encouraging.

The new congressional budget process is enabling the Congress to strengthen its control over the Federal budget—the most important statement of national priorities that we have. An integral part of getting better control of the budget is getting our money's worth from established programs. Knowledge of what we are spending is necessary to asserting budget control, but it must be complemented with knowledge of what we are buying with that spending. As we acquire better knowledge about what we achieve from Federal spending, we will be able to assure more responsive and accountable Government.

A basic purpose of the sunset and zero-base review bills now being considered by the Congress is to encourage the acquisition of knowledge of the results of Federal spending. All of these bills would require, to varying extents, that the executive and legislative branches take a close look at Federal programs, in order to determine whether they are achieving their intended purposes, whether they are helping to meet our Nation's important needs and whether they are doing so efficiently. Consequently, we view the proposed sunset and zero-base review legislation now being considered by the Congress as the statutory complement to the 1974 Congressional Budget Control and Impoundment Act. I believe it is essential that any new legislation in the sunset or zero-base category be carefully integrated with policies, procedures, and schedules established by the Congressional Budget and Impoundment Control Act. Probably the most direct and effective means of reflecting the conclusions from reviews of ongoing programs would be to integrate them into the process of debating and establishing spending priorities. Doing this smoothly will require careful scheduling and coordination in both the executive and the legislative branches.

We have been greatly encouraged by the successful accomplishment of many objectives of the Congressional Budget Act, and we believe the accomplishments of this committee, its Senate counterpart, the CBO and the Congress as a whole have been truly remarkable. However, many of the provisions of the act have not yet been tested or implemented. In these circumstances, if favorable consideration is to be given to legislation which may embody requirements related to or affecting the Congressional Budget Act, great care should be taken to assure that the new law does not interfere with full implementation of the Budget Act.

Various existing laws indicate the desire of Congress to insure that Federal programs are carefully and objectively assessed. Forty years ago Congress mandated that the benefits and costs of flood control

projects be assessed prior to approving Federal participation in such projects. In the 1960's many pieces of social legislation contained evaluation provisions requiring agencies to measure and account for the effectiveness of their programs. The National Environmental Policy Act of 1969 required that comprehensive environmental impact statements be made within a cost-benefit framework for all proposed major Federal actions that may significantly affect the quality of the human environment. And much authorizing legislation now authorizes agency evaluation and monitoring activities for the purpose of assessing and reporting to the Congress how well its programs are producing the desired results.

Of course, the most recent general requirement for program evaluation is that in title VII of the Congressional Budget and Impoundment Control Act of 1974. The Budget Act emphasizes the committees' need for review and evaluation in support of their oversight function. Section 701 of the act provides the committees with the authority to carry out required analyses, appraisals, and evaluations themselves or by contract, or they may require a Government agency to do so. This section also provides for the use of pilot testing, benefit-cost analysis, and evaluation after a defined period. Section 703 provides for the study of budget improvement proposals, including matters relating to the information base for program analysis, evaluation, time limitations for authorizations, the development of human resource accounting and other means of providing noneconomic evaluation measures. The proper integration of these activities into the budget cycle will take experience and time, whether they take place in the context of new sunset and zero-base review legislation or under existing law.

Title VII of this act also strengthens GAO's program evaluation role by requiring us to review and evaluate Government programs carried on under existing law, to develop and recommend methods for reviewing and evaluating Government programs and activities, and to assist in developing statements of legislative objectives and goals and methods for assessing and reporting actual program performance.

The resources needed to carry out the requirements of even existing laws are difficult to estimate because of the developmental nature and complexities of the new processes being undertaken. Zero-base review involves additional and still more developmental techniques and processes both in the executive and legislative branch. Also uncertain is the degree of detail and the extent of the evaluations that the Congress will desire.

PROGRAM EVALUATION PROBLEMS

We have found that assuring more responsive and accountable Government means requiring the timely assembling and analysis of evaluative information on Federal programs. The reauthorization and evaluation proposals that are currently under consideration could provide the framework for developing timely evaluative information which will help improve the Congress, ability to carry out its legislative, oversight, and budget responsibilities. However, there are some fundamental prerequisites for the improvement of the flow of evaluative information in support of these congressional processes.

These are: First, clarity and specificity in stating program goals; second, providing either by legislation or by other means, for program evaluations; third, establishing measures of effectiveness; and fourth, supplying timely and to-the-point analysis, conclusions, and recommendations to program administrators and the Congress.

PROGRAM GOALS

Program evaluation is intended to inform decisionmakers and the public as to whether or not Government policies, programs, or activities are achieving desired goals. Thus evaluation research requires the development and use of research methods for measuring and comparing what actually happened to what would have happened without the program. Evaluation research falls short of this ideal frequently because the objectives of a program are unclear or so broadly specified as to be unusable for evaluative purposes.

These difficulties often stem from the fact that not all those who support a program do so for the same reasons. A consensus is required for the passage of legislation, and often groups with disparate interests must be won over if the bill is to be passed. As a result, specific definitions and goals may be left out of legislative measures. And when intent is ambiguous, an evaluation is complicated because of the lack of agreed upon standards for defining program success.

Perhaps the basic reason for this lack of precision is the subtle, complex, and sometimes conflicting nature of the basic goals and values of our society. Our goals cannot be simply stated; we value individual freedom and equal opportunity, technological progress and social stability, economic growth and environmental conservation, economic efficiency and equitable income distribution, bureaucratic accountability and administrative simplicity. Such basic values will underly the particular structure and explicit goals of any program. Consequently, an evaluation of a particular program's effectiveness in achieving its explicit goals may be ambiguous in that it leaves unexamined standards or criteria which are basic but implicit in establishing the program.

The solution to the problem is not always to be more specific, however. Problems may result from overly precise goals also. While reducing the potential for misinterpretation, precise objectives may limit flexibility for responding to changing conditions and circumstances. Also, precise goals may constrain subsequent evaluations by focusing on questions which are too narrow in scope. If the goals are met, the program may be judged a "success," even though the costs and adverse side effects of the program may be excessive. If the goals are not met, the program may be judged a "failure" even if the results of the program are effective in comparison with the available alternatives. Moreover, the "failure" cause may be too easily explained as inadequate funding, when other factors may be important, such as poor design or bad management. Finally, too precise goals may offer incentives to program officials to focus on the measured goals, while neglecting other important aspects of the program.

These practical problems in evaluating programs are serious, but they can be solved, we believe, if the legislative and executive branches work together in designing evaluations and reaching agreements on program goals and their measurement.

PROVIDING FOR PROGRAM EVALUATIONS

To insure that an evaluation focuses on issues of concern to the legislative user, the content of the evaluation can be specified by identifying the issues to be considered in the evaluation study. The evaluation objectives identified could then be communicated, whether by statute or by other less formal means, to the agency responsible for conducting the evaluation. Because of the evolving state of the art of evaluation and its inherent complexities, we would be glad to work with committees drafting evaluation language for legislation. We also encourage close coordination with executive branch agencies involved.

We are encouraged to find that some of the legislation we reviewed specifies the type of information required in program reviews. These requirements will help to improve the evaluation reports received by Congress.

MEASURING RESULTS

The comprehensive measurement of program impact is extremely difficult. Seldom can measurements which produce qualitative and quantitative information describing a program present a complete and valid representation of program effectiveness. Usually, the set of measurements taken in a program evaluation can only provide a partial picture of the actual results of a program. For example, an evaluation of a handicapped education program may be able to measure improvements in the test scores of the children, and we may even be able to measure some of the aspects of a handicapped child's psychological development. Further, we could survey the parents of the children in the program to get an indication of how the children's behavior had changed as a result of the program. But the study would be hard pressed to measure the extent to which the children would become more productive, self-sufficient, and satisfied when they become adults. We can only wait until the children become adults to discern whether the program has had the longrun effect we intended. Even then we must make assumptions regarding what would have occurred without the program.

It is also extremely difficult to identify, isolate and measure the true cause of an observed result. Whether the program is the factor responsible for achieving an observed result is always a question to be asked. Our doubts can sometimes be minimized or eliminated by a well-controlled experiment, with some persons, groups, cities, or States receiving the program and with others, the control group, not receiving the program. Often, however, it is impossible to experiment. Normally, we can't experiment with national defense, monetary or fiscal policy on a limited basis since these policies are only applicable nationwide. Given the practical, ethical, and legal obstacles to conducting experiments, usually we must accept less than certain findings from evaluation studies. However, close contact between the legislative branch and agency managers and evaluators in the development of evaluation plans, designs, and questions to be addressed in the studies will minimize problems.

TIMELY EVALUATIVE RESULTS

Zero-base and sunset proposals, in general, couple the program review cycle with a fixed reauthorization cycle. The results of program

reviews are considered in decisions on reauthorizing programs. The reauthorizing cycles in most of the bills we reviewed are fixed in length and group programs of a similar type.

The aspect of sunset legislation which requires focusing the review process on groups of programs within broad areas of national need is extremely useful and constructive. This should help Congress concentrate on policy matters in a given area and will illuminate program interrelationships including possible duplication and obsolescence.

We do not believe, however, that a fixed review cycle for all program areas is appropriate. Some programs, because of their nature, may need fundamental reconsideration more often than once every 4 or 5 years. For example, programs of a countercyclical fiscal nature might need to be reviewed and possibly reauthorized as frequently as economic conditions warrant a change. On the other hand, some programs require less frequent reconsideration than a 4- or 5-year sunset mechanism would require. The Congress should also carefully consider the interrelationship between authorization or sunset reviews and appropriation reviews.

In summary, the differences between individual programs indicate a need for some degree of flexibility in the frequency of the review and reauthorization schedule. However, allowing flexibility in the schedule is a departure from a basic purpose of sunset legislation in that it would allow reauthorization of one program without considering all similar programs at the same time. This suggests a need for further analysis of the potential effects on the sunset concept of maintaining nonuniform reauthorization schedules. Under a sunset procedure, there will need to be close coordination among all committees with an interest in a given general program or functional area. This committee is quite aware of the need for close coordination among committees as a result of its experience with the new budget procedures. A sunset procedure may be the type of change which will motivate all committees to cooperate more closely in shaping national policy in each functional area of the budget.

We note that S. 2925 addresses tax expenditures as well as direct expenditures. The Congressional Budget and Impoundment Control Act specifically refers to tax expenditures and we believe this is an important innovation. We feel that any comprehensive review of the impact of Government activities requires joint consideration of direct expenditures and tax expenditures, area by area. Much needs to be done to improve our understanding of the effects of tax expenditures and the tradeoffs between them and direct expenditures.

We have discussed a few of the practical problems of sunset legislation and program review and evaluation at some length. The zero-base review process goes one step further than evaluation. This additional step involves predicting what would happen—not just measuring what did happen—if the program were eliminated, reduced, or increased. To make these predictions accurately will be difficult to put it mildly. In these circumstances, a pilot test of the process might help uncover and resolve some of the problems we have described. Perhaps the test might consist of each committee considering one or a limited number of programs for zero-base review and evaluation. The Congress could call on the President and the agencies for necessary cooperation in each program area included in the pilot project. A pilot

test would also provide valuable insights into the workload to be expected.

For a test it would be helpful to select different types of programs for review. For example, zero-base reviews of social programs dealing with services to people may encounter different problems than reviews of hardware oriented programs; tax expenditures might also be considered.

Of course, the whole regulatory area is a different area to which attention might be directed.

Activities that have difficult to define benefits such as research and development or environmental programs should be tested also.

Sunset legislation has been passed by some States, but working experience is limited to date. Valuable insights to the procedural and administrative problems involved and estimates of workload should come out of State experience.

In summary and conclusion, Mr. Chairman, we strongly support the concept of periodic and systematic review of all Federal programs. The burden of our testimony today is that this committee and the Congress should plan very carefully in adding new requirements to its already considerable burdens. We believe the new congressional budget process is working remarkably well and strongly urge that any new workloads imposed by sunset or zero-based review legislation be carefully integrated into this existing process to assure that it is not disrupted. We in GAO will be pleased to assist in any way we can with this task. We will be working at the same time to improve our assistance to the Congress under titles VII and VIII of the Congressional Budget and Impoundment Control Act.

That concludes my statement, Mr. Chairman. I will be pleased to try to respond to questions as best I can.

The CHAIRMAN. Thank you very much, Mr. Hughes, for a fine statement.

My first question is this: Do you believe we should couple zero-base budgeting and sunset legislation into the same package?

Mr. HUGHES. I guess the short answer to your question, Mr. Chairman is yes. I think they are almost inherently coupled. The sunset legislation concept incorporates the notion, at least as I perceive it, of zero-base review. Neither of these terms is used very precisely as yet. But as I understand them, they are inherently rather closely related.

The important thing, it seems to me, is to then consider the relationship between the processes necessary to accomplish zero-base review and sunset concepts, and incorporate them into the congressional budget process in a way which will still enable that established process to work, and the schedules which must necessarily be adhered to to be met.

The CHAIRMAN. That leads to my second question. Because of the experience of the last 2 years, I shifted from one who deals with idealistic things to very practical, nut and bolt, day-to-day decisions. The question I asked all the witnesses yesterday is: What kind of a sunset trigger mechanism would you recommend?

The present bills simply take the functional categories that we deal with in the budget resolution, divide them into a series of sections, and say that the authorization for various groups of functional categories shall expire at a particular time. The legislation sets out a 5-year schedule.

Should we use that kind of mechanical device, or should we use a more sophisticated system of triggering the sunset provisions, and selecting the programs to which they would apply?

Mr. HUGHES. I would urge the more sophisticated mechanism, Mr. Chairman. I think I would urge that for two reasons, basically.

First of all, as we perceive it, as I personally perceive it, all programs do not need review on the same schedule. There are vast differences among them. And we have tried to suggest some of those in the testimony we have given.

The CHAIRMAN. I agree with your examples. I know time is limited but I would like your specific answer on this. As I understand it, zero-base budgeting basically works in the executive branch, where program managers are being asked a series of questions, and they feed this information up through the existing budget chain.

Now, it was suggested yesterday that the program managers' reports of how they would spend their money within an area would be made available to the public, so that either the committee or the top people in the budget process, in both the legislative and the executive branches would know what the alternatives were.

Do you think that should be done, or do you feel it would become a procedure where the President would receive a whole series of conflicting reports from his own staff?

Mr. HUGHES. Well, I think both those things are true. If there is to be zero-base review, it seems to me the process must involve the kind of activity that you described in the executive branch. Clearly, that process will have to be superimposed on and integrated with the existing process in some fashion. And I certainly would not underestimate the difficulty of getting the executive branch to set forth in priority order what should happen. That is——

The CHAIRMAN. That is very difficult, I know.

Mr. HUGHES. It is difficult, not only in practical terms, but in political terms, because it makes programs sitting targets.

The CHAIRMAN. My time has almost expired. One more question.

Do you think, then, that one possible trigger mechanism might be in the form of executive recommendations to Congress. The President might recommend from the information he gets out of the zero-base budgeting system a specific sunset order. The Congress might handle these recommendations under the reorganization procedure. The Congress would then have 30 days to accept or reject his proposal. Is that a more sophisticated alternative than simply taking it block by block.

Mr. HUGHES. I think that is one alternative. The other alternative would be for the authorizing committees in the Congress to develop a schedule for zero-base reviews.

The CHAIRMAN. Thank you, Mr. Hughes.

My time has expired.

Does any other member of the committee wish to question? Mr. Gibbons.

Mr. GIBBONS. Perhaps the best way to get at all the programs would be to break them down by function, Mr. Chairman—for the executive agencies to concentrate on the function—as we try to do in this committee.

What I am worried about is if we adopt complete zero-base budgeting, and we adopt complete sunset legislation, we just throw the executive branch and the legislative branch into complete confusion—we will end up with lots of telephone-type directories that are so big nobody can master them.

I think there must be an educational process as well as an attitude that we have to develop.

Mr. HUGHES. I certainly agree, Mr. Gibbons.

The danger as I see it is that zero-base review, or the sunset process be regarded as a rather easy sort of black box solution to a very complex set of problems.

As I think back over the years to performance budgeting, PPB, program evaluation, management by objective—all of these are advertised to be quick and easy solutions, but they never work out that way, at least in my experience. Yet there are concepts in each that are very valid and useful.

I think this same thing is generally true with respect to zero-base review, and the sunset concept.

Certainly scheduled periodic and mandatory review of programs is a very desirable thing. The problem is to do that without creating a workload which defeats or destroys the congressional budget process, among other things, which is the last thing that I personally would like to see. We need to do these things in a way which is not bigger than all of us.

Mr. GIBBONS. Let me give you an illustration. If we could set aside the review of retirement programs—we could look at not only the Federal civil service program, but all the other retirement programs, including the ones in the tax system. We could look at the State and local government ones, and their impact upon social security, because they have a very serious impact. And then we would set a target for doing that, say within one Congress. It would be tough. You would have to have some preparation by the executive branch.

Mr. HUGHES. That would have to encompass a lot of programs—including the social security program. You would be dealing with a substantial part of the budget.

Mr. GIBBONS. The reason I picked that one out is because I think it is the one that is in such terrible shape right now. We ought to start putting that fire out before it spreads.

Mr. HUGHES. I certainly agree, the area needs attention. But it seems to me the fact that you have selected it and the obvious fact of the size and complexity of the area suggest again the need for scheduling that kind of a review on some realistic basis. And I do not think you can do it in one session of Congress.

Mr. GIBBONS. The trouble is, you know, our terms do not last but one session. The Senate goes on forever, but we have to quit every 2 years. And I am afraid if we do not have some definite goal, we will just dawdle around and the work will never get done.

Mr. HUGHES. Much could be done to accelerate the process by preplanning and by staffing to do it. But we are attempting in the GAO, on a program evaluation basis, which is somewhat easier than the zero-base—sunset concept—we are trying to do something of this sort in the income maintenance area. And we have a somewhat longer schedule in mind than you suggested, and are not sure we can make it.

Mr. GIBBONS. I don't want to prolong this discussion. What I'm thinking about is—let's take a problem that is politically significant and of some consequence. Set a goal for making some changes, maybe not an end-all change, because I do not believe there is a final solution to any problem—take a problem that really has an impact upon our lives—and retirement certainly does, because it is growing so rapidly. We could look at it in the Post Office-Civil Service Committee, in the Appropriations Committee, in the Ways and Means Committee, we could look at it in all the other committees that have something to do with it. At the same time, we could be calling on the public sector to present briefings for Members of Congress.

In other words, concentrate people's attention on it, rather than having to convince them as they run into the gym with some slogan on an amendment. I think maybe we could do something there.

Mr. HUGHES. I think that is the way to go, Mr. Gibbons. The problem is to schedule the activity, realistically and to integrate it with your other activities.

Mr. GIBBONS. Thank you.

The CHAIRMAN. The time of the gentleman has expired.

Mr. Conable.

Mr. CONABLE. Thank you, Mr. Chairman.

The business of this committee to a substantial extent is procedural. But of course we all know what a difficult line it is to draw between procedure and substance.

You could make a pretty good case for this committee being a procedural gimmick. It is a discipline that forces us to face up to some of our substantive responsibilities that we have been neglecting.

A sunset law is pretty much the same sort of thing, it is a kind of gimmick that tries to force us to look at things a little differently than we would if we followed the path of least resistance.

Implicit in what you have said is that you would exercise some value judgments about the sunset law, rather than make it a rigid discipline to be applied equally to all elements in the budget.

Mr. HUGHES. Yes; that is correct.

Mr. CONABLE. Are there any areas of the budget you think a sunset law is completely inappropriate to? An obvious one is the interest on the national debt. We don't have any choice there. But you know we have—

Mr. HUGHES. I do not agree with that, Mr. Conable, if you are speaking of the need for systematic scheduled review. I would review that one, too. I think there are important choices to be made in the interest area, as there are in the tax expenditure area, that have been largely overlooked—choices of long versus short-term debt, the kind of securities, the relationship between Treasury debt and agency debt and so on. That is a longer range review, I think, however.

Mr. CONABLE. Have they been overlooked in effect because of a failure of technique, or are you just disagreeing with the decisions that have been made?

Mr. HUGHES. I think they have been overlooked because of a failure of technique, as has the tax expenditure area as a whole. That is my personal feeling. That is not a GAO official opinion.

Mr. CONABLE. All right.

Are there any areas in which you feel this would be an inappropriate technique to use because of some value judgment you have made about the area?

Mr. HUGHES. No, sir. I think all areas of Government require periodic review. The problem is to set a schedule which is on the one hand realistic, and on the other hand provides for review on a sufficiently frequent basis.

Mr. CONABLE. Your answer is that you would apply the technique across the board, but you would apply in it varying degrees depending on the appropriateness of the type of review that is involved; is that right?

Mr. HUGHES. Yes. And also depending on the capacity, both of the Congress and the executive branch, to do the work. One of the virtues of the congressional budget gimmick, to use Mr. Conable's term, was its relative realism and flexibility in schedule, so that thus far at least it has been possible to do it. And I think the task in the sunset zero-base—

The CHAIRMAN. I might say it is very close, Mr. Hughes.

Mr. HUGHES. Well, that is why I commented frankly to this committee, because I think you can appreciate the problem to an unusual extent.

It will be too close scheduling, in the sunset-zero base area, I think, on the basis of the schedules that are in these bills. I don't think it can be done that way.

Mr. CONABLE. Thank you, Mr. Chairman.

The CHAIRMAN. Do other members wish to question the witness?

Mr. Derrick?

Mr. DERRICK. Thank you, Mr. Chairman.

Mr. Hughes, I thank you for your statement. I think this is a dangerous piece of legislation. I think one of the great dangers is that it is so appealing. I want to ask you this: You have pointed out the difficulties of evaluation. I think many of them are obvious. I spent 6 years in the State legislation throwing these questionable reports in the trash can, and I spent 2 up here doing that. And, of course, this is not something we want to continue.

Do you know of any good evaluation reports that have resulted in any substantial changes in programs, either legislative or program design?

Mr. HUGHES. Yes, I do. It depends on your definition of evaluation. Experts cannot agree even on that.

Mr. DERRICK. Any substantial change in design, or any savings to the taxpayer, because of an evaluation was done?

Mr. HUGHES. Yes, sir, I think so.

We have done some evaluations in the GAO that we think meet that criterion. I referred to one or two offhand. But we would be pleased to talk further with you about it if you wish.

We have done work that I happen to be familiar with in the nuclear area, that we think made a contribution toward congressional decision, and that was useful.

We have done some work in the defense area with respect to the AWACS program, if that is a familiar acronym to you, that we think was useful. Whether we changed the course of human events or something else did is always very hard to tell. But it appears to us

that in a number of areas there is reasonably close relationship between what we found and recommended and what the Congress did. But—evaluations are inherently imperfect, and much is left to the judgment of those who are making the decision.

Mr. DERRICK. Mr. O'Neill, in his statement yesterday, brought to the attention of the committee—and I quote: "We have indications that the GAO approach may result in the identification of 20,000 or more programs." Now, what are you folks doing over there?

Mr. HUGHES. Mr. O'Neill is pulling our leg maybe. I am not sure.

Mr. DERRICK. Excuse me, I didn't hear you.

Mr. HUGHES. Mr. O'Neill may be pulling our leg—I'm not sure.

Title VIII of the Congressional Budget and Impoundment and Control Act charges us with improving congressional information in a variety of ways—timeliness, access, standardization of definitions, and so on. We have been doing a great deal of work in that area, including some with the present functional classification of the budget.

Some of that work deals with how authorizing committees relate both with the Budget Committees and the Appropriation Committees. For the March 15 report which they owe the Budget Committee, for example, they must identify the relationship between authorizing legislation, program, and appropriation account.

Mr. O'Neill, I think, was referring to the fact that there are an immense number of bits of information involved in that crosswalk process, which is one of the things that has made it very difficult to accomplish.

We are developing committee by committee, program by program, and appropriations, those crosswalks, and there may well be 20,000 bits of information, because of the need to relate authorization, appropriation account, and program.

But that is not to say there are 20,000 programs. I do not know what the right number of programs is. It depends on how you define them. But it is more like 500, 1,000, or 1,500, depending on how thin you slice the baloney.

The CHAIRMAN. I just want to indicate to the committee that the House shifted to a recorded quorum at 11:10. It is the intention of the chairman to sit through the quorum and continue. But some Members may wish to go answer. I'm sure Mr. Hughes will remain available for them if they wish to do so. They may wish to stay and proceed with the questioning, at their choice.

Please go ahead.

Mr. DERRICK. Mr. Hughes, let me go back to my first question.

Would you, at least for the sake of the record, identify just one program where you think its evaluation has had a significant impact.

Mr. HUGHES. Surely. There has been some good work done also by executive agencies in the area of program evaluation.

However, "program evaluation" is a little like "zero-base budgeting." It is a catchword, a slogan, if you will. And there are a good many more people who are writing books and prepared to tell you how to do it than and doing it well, because it is a difficult art, not yet a science. We are struggling with it in the GAO, as title VII of the Budget Act tells us to do.

But it is a difficult thing to do. None of our evaluations are perfect. But I will certainly furnish a list.

Mr. DERRICK. Today, do you have one program in mind?

Mr. HUGHES. Yes.

The report which we submitted on the AWACS program I think affected congressional action with respect to that program. I will be glad to identify both the report and the action better. I don't recall them offhand. That is one.

Another area where I think we made a useful contribution was with respect to the administration's uranium enrichment proposals, where we evaluated them in the context of the general situation and made some recommendations.

A third area was with respect to the breeder reactor, where the congressional reaction to our report suggested that it was useful and contained an assemblage of pertinent information. But I will give you more detailed references on those.

Mr. DERRICK. Thank you very much.

The CHAIRMAN. Mr. Hughes, I am going to go on to the other witness. The other Members will be back as soon as they have answered the quorum call. They have requested me to proceed.

I am concerned about your reference to making certain that these new proposals are included in the budget process. I find that our time schedule, as a practical matter, has been very difficult under the budget process, and we had to change the whole way the institution works to get committees to file their reports on time, in order to have them available before bills get on the floor. The time problem has been excruciatingly difficult.

If we were to take one-quarter of the functional categories, place them under sunset legislation, and these must be reauthorized, how then would we physically handle the load in terms of its impact on the Congress as an institution? As Mr. Conable says, I do not use the word "gimmick," I use the word "process."

I think a democracy lives and builds on process, because without the process you cannot get the input and the consent of the governed to arrive at whatever consensus or decision you make at the end of it.

Now, would we take all of these bills, say, between January and March, and require that they be reauthorized under the present schedule which says that all authorizing legislation must clear by the time of the first budget resolution, May 15?

Mr. HUGHES. I would certainly hope not, Mr. Chairman.

The CHAIRMAN. I had a little problem with that, too.

Mr. HUGHES. There are various ways of doing it, but thinking out loud—

The CHAIRMAN. You see, we don't have some of the authorizations passed yet this year. I agree, it has been a marvelous success, it worked far better than I ever dreamed it would. And we did get all of the appropriation bills in shape. They are all ready to go to the Senate. This is the first time in recorded history that all the appropriation bills are either over in the Senate, or are prepared to go over. Most of them are back and we are going to clear them by October 1. But to do that, we had to bypass some authorization committees which had not caught up with the system.

Those authorizations were the ones that have automatic terminations in them, and we did not get all of those done. Now, if we terminate a full quarter of all authorizations, how do we work them into the system?

Mr. HUGHES. Well, one way to do it, it seems to me, would be to integrate whatever zero-base or sunset review you wish into the process via the March 15 report of the authorizing committee. But in order to do that, somebody has got to start the zero-base review or sunset review, way, way back.

The CHAIRMAN. How far in advance? In other words, our problem right now is we are working on a tight budget cycle. For example—we have not finished the fiscal year 1977 budget yet. But the 1978 budget cycle within the executive branch has already started, as we both know. This means that we really have got a locking process already in place.

When do we apply the sunset provisions so that it fits within that?

Mr. HUGHES. This would be another cycle, another process going on.

The CHAIRMAN. I do not want to get too many cycles out there.

Mr. HUGHES. I think there is no way to avoid another cycle if you are to engage in this kind of review. The schedule would have to depend on the program area, its size and complexity and so on. The essence of my position is that there needs to be a sophisticated examination of what is possible. And for complex program areas it seems to me the cycle has to start at least 6 months or a year or more ahead of March 15 when the committee is supposed to deliver to you its comments.

The committee will need to start to deal with that problem far in advance of the reporting date, and it will need to motivate the executive agencies also——

The CHAIRMAN. Can you give me this kind of estimate? You may have to supply this in writing, because I know it is technical. Can you give me an estimate of how many more authorization bills we would have to deal with under this new system than we presently deal with by the May 15 date? As we both know, we have a significant number of authorizations that have expiration dates, and that number is growing as more and more authorizing committees have learned that their real power in this operation is to put a termination date on the authorizing legislation so they get another look at it.

What would be the additional number of authorizations that would be required to come into the process beyond what we are doing now? I want to get some idea of the workload effect so that I can report back to the other committee chairmen.

Mr. HUGHES. The review cycle—you are talking about an annual review cycle now?

The CHAIRMAN. Under these bills, where they are taking——

Mr. HUGHES. Four or five years.

The CHAIRMAN. Yes, 4 or 5 years. But they take about a quarter of the programs each time. Nobody has talked to the committee yet in terms of how many additional authorizations would have to be done under the new system as opposed to what we have now.

Mr. HUGHES. I'm sure we can do that, at least on an estimated basis, for the record.

One of the interesting byproducts of the budget process is the evolving relationship of authorizing committees to the appropriation and budget process. And we are finding that authorizing committees, once upon a time, enacted authorizations and then went away and forgot about it. No longer is that possible, because of their involvement in the congressional budget process.

We are really just now in the process of identifying appropriation-authorization program relationships.

The CHAIRMAN. You see, to me the way that the budget process succeeds, the only way it can succeed, is that it becomes institutionalized, so that it becomes part of the way that we do business. All committees must understand that the first budget resolution belongs to everybody in the House. It is not the Budget Committee versus all other committees, because at that point, on the House side we would surely fail.

Now, what we need to know about the sunset triggering mechanism is whether it is going to produce another area where we must adjust between the budget resolution and more authorizations. That is why I asked you about the triggering mechanism, whether you institutionalize it by automatically taking one-quarter of the functions. Then we have the meeting with all of the committee chairmen and we tell them they have until May 15 to report out their bills. If the sunset legislation is applied, then those committee chairmen will probably tell us that they can't do it by May 15. We are requiring them to reauthorize not only what has been decided are the bills to be cut, but also these additional bills. Some of them will balk, not for any evil reason, but simply because they cannot physically do it. What is involved here? Can we institutionalize it, can it physically be done in your opinion?

Mr. HUGHES. I do not think it is institutionalizable on a rigid schedule. I think it can be done with a sophisticated and knowledgeable schedule developed cooperatively and carefully with active participation of all concerned, including the executive branch.

The CHAIRMAN. Will the committees propose to put on the schedule items that their particular interest groups don't want to have touched? Now, I will give you an example of that.

I have had marvelous cooperation from the chairman of the Post Office and Civil Service Committee. But that committee is very reluctant to do anything about any of the Federal retirement programs. I have had some experience with the same situation in the Interstate Committee with regard to retirement. A number of us just plain bit the bullet, and said, you cannot have dual benefits. And yet the reaction that comes back from those that are involved, and the public comments that are made on it, indicate that this was considered almost evil. It wasn't something evil at all. We just said to people, you cannot keep having full benefits under railroad retirement and full benefits under social security, and keep the system going. Railroad retirement has now gone broke under the dual benefit plan.

Now, I know how difficult that was. If we had not had enough pressure on us in the process, I don't think it ever would have come up.

Now, how do you trigger authorizing committees to act assuming you use them as opposed to some outside agency?

Mr. HUGHES. Well, it seems to me the legislation or rule could require that each committee establish a schedule for every program in accordance with a pattern set forth in the legislation. The committees should then have some flexibility, as to frequency of review, but would have to ultimately review all programs.

Judgment would differ, certainly, as to how frequently the review should take place. But it seems to me that some degree of flexibility is absolutely necessary if this process is to be superimposed on what is already going on, both in the Congress and in the executive agencies.

The CHAIRMAN. Mr. Hughes, I want to thank you for your excellent testimony. Your experience clearly shows.

Mr. HUGHES. In more ways than one, Mr. Chairman.

The CHAIRMAN. Well, I appreciate your comments very much. I think we must be very careful not to overpromise and underperform.

Mr. HUGHES. Hear, hear.

The CHAIRMAN. Our next witness will be William Gorham, president of the Urban Institute. Mr. Gorham, we are pleased to have you with us this morning.

There is a recorded vote on. That is why the Members have not returned. We will stand at recess for 10 minutes, and then will proceed with the next witness.

[After recess.]

The CHAIRMAN. The committee will come to order.

Our next witness is William Gorham, president of the Urban Institute.

Mr. Gorham, we are very pleased to welcome you to the committee this morning. You may either read your statement, or you may put it in the record, and summarize. How do you wish to proceed?

Mr. GORHAM. I would like to read my statement, Mr. Chairman. It is relatively brief. I will skip through it.

The CHAIRMAN. All right. Without objection, the statement of Mr. Gorham will appear in full in the record.

Please proceed.

STATEMENT OF WILLIAM GORHAM, PRESIDENT, URBAN INSTITUTE

Mr. GORHAM. It is a privilege to appear before this committee. It is particularly satisfying to me since I have spent virtually all of my working life concerned with trying to understand what it is that Government programs do, and to bring that understanding to the service of changing them in positive directions.

You asked me to reflect in particular on what can be expected from evaluation, inasmuch as evaluation is the linch pin of zero-base review. If it doesn't work, zero-base review will be of much more limited value.

But before I address that question, I would like to say that legislation which requires and enforces periodic and systematic zero-base assessment of Federal expenditures is a natural and desirable adjunct of the Congressional Impoundment and Budget Act of 1974, for, among other purposes, at least I read in the intent of that act, the improvement of the return on public spending.

Reliable information on Federal program performance is a necessary prerequisite to achieving that purpose.

The bills that you are reviewing require or would involve the strongest mandate to sharpen our understanding of the impacts of Federal spending and therefore do have great potential for good.

But unless care is taken in shaping the demands such a law would make on the professional staffs of the Congress, its agencies, or the executive branch, in relation to the capacities or the potential

capacities of those staffs, compliance with this law would not be credible or useful.

That would be a great loss, since it could have the effect of setting back rather than advancing the quality of congressional oversight, and ultimately, performance.

In my judgment, the main component of a viable strategy for implementing a concept such as zero-base review is selectivity—or to refer to what Sam Hughes was discussing with you, Mr. Chairman, a very careful time-phasing of the character and the timing of the review of Federal programs.

This would require a thoughtful selection of functions or closely related groups of programs which are amenable to evaluation on the one hand and also strong candidates for reappraisal, because they no longer seem to fill a priority need, or because they are thought to do so inefficiently.

Admittedly, the process of choosing which programs to subject to review would be painful—you alluded to this a moment ago, Mr. Chairman. Most committees and agencies would not die for the honor. A dozen major areas or programs would be a formidable assignment for the first year of the act. To try to review 20 percent of all Federal programs would undermine the credibility of the act, even if the act were laced with extra funds.

The programs most unambiguously under the control of the Federal Government, for example, the Internal Revenue Code, what is called tax expenditures in the Senate version of the bill, the Defense function, space, and so forth, should be among the first programs chosen for zero-base review.

In contrast, programs characterized by mixed funding or program operation at other levels of government, for example revenue sharing, title XX, the Social Service Amendment of the Social Security Act, CETA, the Community Development Act—these programs should not be chosen for zero-base review, at least not in the early years.

Impact information for such programs is beyond the state of the evaluation art.

Moreover, decisions about funding level, which is the major congressional decision once the program exists, will not be helped greatly by generating the other information called for under a zero-base approach.

I would like to step back a moment and detail the source of difficulty in evaluating these latter sorts of programs.

Apart from its role in improving program performance, evaluation is undertaken to assist in making choices among programs competing for scarce dollars.

If the Congressional Reform Act, Budget Act of 1974, means anything in the end, it does mean allocating limited dollars among different functions and ultimately programs—so much for environmental protection, so much for defense, so much for housing, and so forth. Since these are choices among noncomparable benefits to the society—better air or more national security and so forth—these choices will be based predominantly on taste, on the values of the people who make them, or their perceptions of political expediency.

The role of evaluation is to inform the subjective process that is entailed in that choice. That step is rarely easy. It involves converting expenditures of Federal money into actual things that happen—the

actual benefits that are derived from that spending. As I said, that step is rarely satisfactory, but it is usually possible in dominantly Federal programs—that is programs managed internally to the Federal Government—not so when there is a mixing of Federal, State, and private spending for the identical purposes of the Federal spending program.

In such cases, sometimes it is impossible to even know how much is actually being spent, much less the tangible benefits that grow out of the Federal contribution in the next funding program.

The reason is that the spending response of the other governmental units to the availability of Federal funds is a crucial part of the effect of the program. Other levels of government may reduce support from their own funds, they may transfer to another activity, they may reduce taxes, or they may be impelled to spend more of their own revenues than they had planned to, and indeed matching requirement does frequently require that addition.

Because of the inherent flexibility to shift moneys and plans around, which may be in the end a very good thing—I am inclined to think it is—all Federal programs which operate through other governments or institutions are to an extent a form of revenue sharing.

This complicates the task of isolating the effect of the Federal dollar, and it is at the source of my suggestion to begin selectivity, and to make the early selections from among strictly Federal programs.

As I suggested earlier, short of impact information, highly relevant information can be developed which informs decisions on the nature of the problem, or the problems that the programs address themselves, their distribution in the population, trends in those problems over time, and so forth.

Such background information can help to shape the view of the worthiness of various targets for public spending. But the specific effects of this or that Federal program, or the effect of ending such programs, would be the most relevant kind of information and that is rarely satisfactory or inexpensive, and it is frequently still beyond the state of the evaluation art. That art, though improving, is still primitive.

I would now turn to two illustrations of what you could expect back from a zero-base review of two sample programs. They are both social legislation, they are both aimed at lower income populations. But they do offer contrasting opportunities for providing useful information to the Congress.

I will follow the procedure prescribed in S. 2925, because it is somewhat more detailed than that in the House bill.

The first is title XX of the Social Security Act—that is the social services part of that act. It provides by now \$2.5 billion to be allocated among States to provide a wide array of social services to lower income people. At present, 30 States are at or within 90 percent of their ceilings, and considerable pressure is mounting to raise the \$2.5 billion ceiling.

But title XX is a rather carefully designed Federal piece of legislation—it is nonetheless difficult to meet the requirements of zero-base reviews. I could follow through on this. I have laid it out somewhat carefully in my testimony. Perhaps I will skip through it very quickly.

There are objectives. The objectives are manifold. They include self-support, self-sufficiency, provision of protective services. And indeed, it was the intent of the committee on the House side passing this bill to provide enormous flexibility to the States, to let them decide on their own objectives, to set their own priorities, and to spend funds accordingly. To quote the Ways and Means Committee, "Your committee has given States virtually complete latitude in determining which service needs are greatest in what population groups."

So the major concern here on title XX shifts from the substance of the State's plan for services to assuring that the public process, by which the plans are developed, meets statutory requirements.

To underline this change in the Federal role, HEW is explicitly prohibited in the statute from questioning a State's definition of a service. So the legislation itself essentially prohibits the use of Federal goals of the service kind in terms of the evaluation process.

A whole new concept of how to evaluate grant-in-aid programs really has to be developed before the Congress can expect from its own staffs or the executive branch truly adequate evaluations.

In a sense, the Congress has to say itself how it wishes to measure the success of a program. Until it really says that, to ask for programs which have very vague or a multitude of objectives is to ask virtually the impossible. When you ask a vague question, you get a vague answer. And vague answers are probably not going to be terribly useful in reaching improved decisions about such programs.

As you read down the procedures required for zero-base review, one thing that strikes me very clearly is that these procedures should be tailored. One set of procedures, one set of questions, addressed to all Federal spending programs, has got to be wrong. What will certainly happen is there will be an enormous flow of information, because the questions will be answered. But what is also clear is that a great deal of what would be provided is not worthy of being provided. It may be terribly helpful to program managers, it might be helpful to the executive branch. But it would not be helpful to the Congress.

That is not true in every case, and in some programs indeed every step outlined in the Senate version of the bill would be useful. But clearly it would differ among programs.

The second illustration is the food stamp program.

I have outlined what one could expect back from the food stamp program. That is a program which is largely under the control of the Federal Government. It is not a passthrough program, it is not a form of revenue sharing.

Most of the questions asked in my judgment could be answered satisfactorily; and indeed reasonably good impact information could be provided, and indeed the question of the consequences of eliminating the program, that's a very good question for this sort of program. And estimates of what would happen if it were eliminated are possible, and the Congress could expect to get useful responses from such a question.

But there is another problem with examining a program like food stamps, particularly in terms of the stated objectives of the legislation, which is that the stated objectives of the legislation are no longer the

only objectives. The program really which aims at improving nutrition and health of low-income folks, and helping farmers by increasing demand for their commodities in times of abundance—those are still relevant objectives. But a far more relevant objective really is net increment to low-income population that food stamps entails.

After all, food stamps is part of a panoply of income support programs for low-income individuals. It fills in a gap, an important gap, in many States, in that it is received by intact husband and wife families who are working, and who do not qualify for other programs.

It is in effect the working poor program today. That is the reason why it expanded so enormously, not to fill nutritional gaps, but to increase to some minimum level the income of individuals in the low-income ranks.

To examine this program alone is relatively absurd, unless you are looking at it narrowly from the way it is administered—from the point of view of the way it is administered.

To make sense, it should be looked at in the context of total income-maintenance. Indeed, that is the way in which the executive branch has been examining the food stamp program, and it is also the way in which Martha Griffiths' subcommittee of the Joint Economic Committee examined it—that is, in the total context of income transfers to low-income populations.

Income support, income transfers—that is an area in which there really has been enormous progress and understanding—in knowing how to evaluate, how to assess existing programs, and how to look at alternatives. And that did not happen overnight, and it did not happen accidentally. It has taken about 10 years. But in the past 10 years, there is a community of knowledgeable individuals throughout the country, and in Washington, and Congress, in the executive branch, who really do understand these programs, and can expect to serve up to the Congress full and useful evaluations and full and useful analysis of alternatives.

And it therefore can give full play to the political process of making decisions about income support programs.

I take a little time underlining this, because I feel that one should look at a bill such as the bill that you are reviewing in the context of the long pull, and the long pull is one of promise. I think one can expect that if you keep asking evaluative sorts of questions, but you do not flood the system with such questions, you ask them reasonably, and you pace those questions well, over the years the ability of professionals to supply to Congress and to the executive branch useful information, will grow. It is happening in the income support areas, it is happening in the housing field and the transportation field. And I think it would happen in many more areas as well.

Finally, I said at the outset that I had spent my entire working life involved with efforts to improve the process and the substance of Federal decisionmaking.

It is because of that total immersion that I find it very easy to be at one and the same time circumspect over the prospects for any particular method or device, but also sanguine about the long-term promise for improving government. While I have seen panaceas fall by the wayside, I have more importantly seen the slow and heartening evaluation of unquestionable improvement in the ability of public bodies to make good judgment on the basis of improved understanding.

There is great promise in the bill this committee now has under study. It will not overnight cause all to stop eating cakes and ale, but it will set in motion further serious efforts to improve the accountability and the quality of government—unless it is oversold or is implemented in a frenzy or with unrealistic expectations.

That completes my statement, Mr. Chairman. I would be very pleased to answer questions about it or anything else I know about it. [The prepared statement of Mr. Gorham follows:]

PREPARED STATEMENT OF WILLIAM GORHAM, PRESIDENT, THE URBAN INSTITUTE

“Dost thou think, because thou art virtuous, there shall be no more cakes and ale?” Twelfth Night II, iii

Mr. Chairman, it is a privilege to appear before this Committee. It is particularly satisfying to be asked to give my views on a concept which stems from a desire to improve public programs and processes since I have been occupied with such concepts the whole of my working life.

Needless to say, the views I present are my own and do not necessarily reflect those of my colleagues, the Urban Institute Board of Trustees, or Institute sponsors.

Mr. Chairman, you asked me to reflect particularly on what could be expected from evaluations of federal programs, inasmuch as evaluation is the linch pin of zero-base reviews.

I would first like to say that legislation requiring periodic and systematic “zero-base” assessment of federal expenditures is a natural and desirable adjunct to the Congressional Impoundment and Budget Act of 1974, for, among other purposes, the intent of that Act was to improve the “return” on public spending. Reliable information on federal program performance is a necessary prerequisite to achieving that purpose. The bills that you are reviewing provide the strongest mandate to sharpen our understanding of the impact of federal spending and therefore have great potential for good. But unless care is taken in shaping the demands such a law would make on the professional staffs of Congress, its agencies, and/or the executive branch in relation to their capacities or potential capacities, compliance would not be credible or useful. That would be a great loss, since it could have the effect of *setting back* rather than advancing the quality of Congressional oversight and performance.

In my judgment the main component of a viable strategy for implementing a concept such as zero-base reviews is selectivity—i.e., a thoughtful selection of functions or closely associated groups of programs which are (1) amenable to evaluation and (2) strong candidates for reappraisal because they no longer seem to fill a “priority” need or because they are thought to do so inefficiently.

Admittedly, the process of choosing which programs to subject to review would be painful—most committees and agencies would not vie for the honor. A dozen major “areas” or “programs” would be a formidable assignment for the first year of the Act. To try to review 20 percent of all federal programs would undermine the credibility of the Act even if the Act were laced with extra evaluation funds.

The programs most unambiguously under the control of the federal government (e.g., tax expenditures, the defense function, space) should be among the first programs chosen for zero-base review. In contrast, programs characterized by mixed funding or program operation at other levels of government (e.g., revenue sharing, Title XX, the social service amendment of the Social Security Act, CETA, the Community Development Act) should *not* be chosen for zero-base review, at least not at the outset. Impact information for such programs is beyond the state of the evaluation art. Moreover, decisions about funding level (which is the major Congressional decision once such programs exist) will not be helped greatly by generating the other information called for under a zero-base approach.

It is worth stepping back a moment to detail the source of difficulty in evaluating the latter sorts of programs. Apart from its role in improving program performance, evaluation is undertaken to assist in making choices among programs competing for scarce dollars—so much for environmental protection, so much for defense, so much for housing. Since these are “choices” among nonecomparable benefits—better air, more national security, etc.—they will be based predomi-

nantly on the taste and values of the people who make them. But to inform that process requires an important step: converting spending to outcomes. That step is rarely easy but usually possible in dominantly federal programs.

Not so when there is a mixing of federal, state, and private spending for the identical purposes of federal spending programs. In such cases sometimes it is impossible to know the net effect on *spending*, much less the tangible *benefits* from the federal "contribution" in mixed funding programs. The reason is that *the spending response of other governmental units to the availability of federal funds is a crucial part of the effect of such a program*. They may reduce support from their own funds—and transfer it to another activity, or reduce taxes; or they may be impelled to spend more of their own revenues than they had planned (the frequent requirement for matching indeed generates this response).

Because of the inherent flexibility to shift monies and plans around all federal programs which operate through other governments or institutions are to an extent a form of revenue sharing. This complicates the task of isolating the effect of the federal dollar and is at the source of my suggestion to begin selectively and to make the early selections from among federally dominated programs.

* * * * *

Short of impact information highly relevant information can be developed which informs decisions on the nature of problems themselves, their distribution in the population, their trend over time, and so forth. Such background information can help to shape the view of the worthiness of various targets for public spending. But the *specific* effects of this or that federal program, or the effect of ending such programs, would be the *most* relevant kind of information and *that* is rarely easy or inexpensive and is frequently still beyond the state of the evaluation art. That art, though improving, is still primitive.

I would now like to walk briefly through some of what a zero-base review would mean in the case of two programs—Title XX of the Social Security Act and the Food Stamp Program. While both are social legislation aimed at lower income people, they offer contrasting opportunities for deriving useful information out of a zero-base review. I will follow the procedure prescribed in S. 2925.

ILLUSTRATION: TITLE XX OF THE SOCIAL SECURITY ACT

Title XX of the Social Security Act has received considerable public and Congressional attention in the past several years. It provides for \$2.5 billion to be allocated among the states to provide a wide array of social services to lower income people. At present, 30 states are at or over 90 percent of their ceilings, and considerable pressure is mounting to raise the \$2.5 billion ceiling. Though Title XX is a rather carefully designed federal program, it is nonetheless difficult to meet the requirements of a zero-base review.

Objectives of the Act.—The statute lists five goals on which states may spend money. They are broad, vaguely worded, and designed so that each could encompass a wide variety of activities. They include: self-support; self-sufficiency; protective services and services to preserve or reunite families; and preventing or reducing inappropriate institutional care by providing community-based and home-based care and securing referral or admission to institutional care where appropriate in providing services to such individuals.

Additional quite different goals for the program are mentioned in the statute and legislative history. The Ways and Means Committee Report emphasizes that each state is to define what social services it shall provide, where, to whom, and at what cost. It notes that, "Your Committee has given states virtually complete latitude in determining which service needs are greatest in what population groups," and thus the major federal concern is shifted from the substance of the state's plan for services to assuring that the public process by which the plans are developed meets statutory requirements. To underline this change in the federal role, HEW is explicitly prohibited in the statute from questioning a state's definition of a service.

Does the need still exist?—In that Title XX is in part a measure of fiscal aid for state activities, addressing a very broad range of problems, it would be difficult to imagine a world in which the needs to which the program is aimed would cease to exist.

Program data—services provided, costs, and beneficiaries.—A new reporting system (Social Services Reporting Requirements or SSRR) is now being implemented. If it is left in place and monitored adequately, these data should be routinely available.

Parenthetically, I would add that the general requirement of an estimate of the number of characteristics of the population who benefit from the law is a very important "sunshine" aspect of this bill.

Assessment of impact and effectiveness.—To assess whether the Title XX program is meeting its objectives is extremely difficult, perhaps impossible. This program not only has several goals described in the statute and legislative history (as do many statutes), but one of its major goals is to devolve to each state the responsibility to establish objectives and shape a services program within very broad parameters. So, to the extent that states are making the substantive decisions within the procedural requirements of the law, the program successfully meets one objective. But the traditional evaluation questions—the extent of service caused by Title XX, the efficiency of the delivery of services, and the impact such services may have in helping recipients attain any of the broadly-stated program goals—remains unanswered. Each of the states has its own objectives and its own program of services. And, not surprisingly, the states vary widely: some are seriously trying to develop good ways to evaluate the effectiveness of their services and to fine-tune the administration of the program; others seem to see the program in terms of "gap-filling" dollars which can round out other state activities. Both modes of operation are well within the statutory requirements.

In my judgment this provision could *not* be met without the Congress itself defining the specific criteria against which the program should be measured. And while that is necessary, it may still not be sufficient because of the fungibility questions I referred to earlier.

Number and cost of personnel employed.—The federal employees who work in the operation of the program can be counted rather straightforwardly; at the state level however, the picture is much more confused. A large proportion of employees who perform social services functions in most state governments also do other things. A typical local service agency might handle funds from Title IVB (child welfare), AFDC funds for foster care payments, and the administrative costs of Medicaid screening. Personnel are rarely assigned to a single account; therefore, any figure generated are likely to be very shaky.

Number and cost of services performed under contract.—Contracting for service provision has been an area of major concern in the social services area, and is the subject of extensive regulation and audit and reporting requirements. Data generated under these new requirements should be relatively good, although at present they are nonexistent.

Assessment of the effect of eliminating or reducing the program is required, taking into consideration similar or duplicate programs.—To a large extent, Title XX is a financing mechanism for the social services sector which consists of public, private non-profit, and, to a minor extent, profit-making enterprises. The extent of public involvement in social services outside Title XX varies by state. New York and California together spend over a hundred million dollars of state funds in addition to that matched by Title XX; other states, such as Arizona and Indiana have only in the last year begun to invest enough state funds to pull down some of the federal matching money of Title XX. Nationwide at least, the equivalent of Title XX's \$2.5 billion is spent by other public and philanthropic sources on the same activities which this program allows.

Estimates of the effect of eliminating the program must rest on assessments of state fiscal ability to pick up the costs entailed, and on speculation as to the political popularity of the programs. State-by-state variation would be very great. In the end the answer to this question would be close to simple speculation.

Identification and evaluation of alternate methods of delivery.—The obvious alternatives: vouchers, cash-out, and direct federal provision, have been speculated about at length within HEW and elsewhere. Description of the theoretical advantages and disadvantages could be expected, and possibly some evidence from a voucher experiment which is just getting underway. It is a good question requiring a sophisticated large-scale study to provide a worthy response.

Assessment of effects of operating at various cost levels.—This requirement is a method of forcing prioritization of objectives. Federal officials would have to estimate what each state's priorities are likely to be—an exercise of questionable value. Moreover, the fiscal relief aspect of this program makes such questions relatively inappropriate.

There is another characteristic of this program which makes it difficult to estimate response to various funding levels; that is, that it is an exceptionally labor-intensive program. When funding cuts are filtered through federal and state civil service systems, strange things happen. The lowest paid employees

tend to be the ones let go, and their jobs are taken by more senior people who have been RIFed from their earlier jobs. So ironically one may end up with a much smaller program with a much higher unit cost.

Impact on the national economy of eliminating or reducing the program.—This assessment is straightforward if one assumes that the major contribution of the program is that it employs a number of people to deliver services. To the extent that positive impact on recipients may be claimed, a very complex formula would have to be developed which includes weight for the amount of impact of each service, the amount of such service offered under various circumstances, and so forth. The level of technical knowledge which would be necessary to address this question seriously is well beyond anything likely to develop in the foreseeable future.

ILLUSTRATION: THE FOOD STAMP PROGRAM

Objectives.—To safeguard the health and well-being of the Nation's low income population by providing them with an opportunity to obtain a nutritionally adequate diet through normal channels of trade; and to promote the distribution, in a beneficial way, of our food abundance that will strengthen our agricultural economy.

Fulfillment of this requirement of the bill would seem to require an investigation of the health and well-being of the low income population and the current and future likelihood of abundance in the agricultural sector. While the "answers" will to some extent be arbitrary, sufficient research probably exists to adequately answer these two questions.

Program data—actual services provided and the costs incurred.—Cost information is available from administrative records. The number and types of recipients is also available from administrative records and survey data. Some analysis of data might be necessary if much detail is desired on the "type" of recipients.

Impact and effectiveness of the program.—Has the Food Stamp Program improved the health and well-being of the nation's low income population, and has it alleviated the abundances in agriculture? These are not easy questions. Some early research addressed the extent to which the Food Stamp Program increased the demand for food, concluding that the impact was negligible. Further analysis may not be necessary in this area. Considerably more research has been conducted on the extent to which the Food Stamp Program improves the health and/or nutritional intake of low income people; the results of this research are inconclusive.

While I am not an expert on food stamps, I am told that a major research project may be necessary to answer this question, and that a study of the effect of food stamps on either health or nutritional intake would be costly and time consuming.

Before passing to the next part of the review, I would like to make one comment on this section of the bill. The evaluation just discussed calls for it to be in terms of the original objectives of the program. This is too limiting. Beyond the narrow objectives stated in the Food Stamp Act of 1964, most would agree that the program has an equally valid objective as a substitute for cash assistance to the working poor—those poor two-parent families who are excluded from Public Assistance programs in most states. Assessment of this program without assessing its performance against this objective would make no sense at all.

Number, type, and cost of personnel to administer the program.—This information is obtainable from administrative records.

Consequences of eliminating the program.—Superficially, this is just the opposite side of the coin from an assessment of program benefits; any benefits would be lost, and if the benefits can be measured, so can the loss of them. But there are also interactions among programs which may tend to mitigate or exacerbate the direct loss, and which may affect those other programs as well.

In the case of food stamps, the legislation prohibits other programs from counting the bonus value of food stamps as income and adjusting their benefits accordingly. So the elimination of the Food Stamp Program would have no direct impact on the benefits of other income-conditioned transfers. But it could have a sizable indirect effect on the demand for benefits from other programs. For example, if the Food Stamp Program were terminated, we might see an increase in the number of schools that have a School Breakfast Program and in the number of children eating breakfasts in schools that already have such a program. We might also see an increase in the demand for school lunches. We would likely see an increase in the WIC program which gives supplemental food to pregnant

women, infants, and children who are deemed to be at nutritional risk. Finally, we would see a considerable increase in the demand for county-level general assistance, for nonpublic charity, and for AFDC for two-parent families in those states which have it. Estimating the extent of these other demands would be difficult but possible.

It would make little sense to do a zero-base review of food stamps in isolation from the other programs aimed at providing income and in-kind support to low income individuals, and families. Indeed, executive and Congressional (Martha Griffiths' Subcommittee of the Joint Economic Committee) reviews of this program in the past were undertaken in the context of the rest of the patchwork of programs aimed at providing minimum income to families and individuals.

Unlike many areas, in which the Federal Government is a supporter of social programs, income support is one in which the state of the art in analysis has reached the point where Congress can expect quite reliable evaluations of existing programs and effective analysis of alternatives. This is no accident. This capability, which exists in a number of places, has been nurtured over the past ten years. With similar nurturing other areas—such as housing and transportation—have also begun to reach such maturity.

A bill such as S. 2925 could if crafted for the long pull provided the impetus necessary to bring other fields of public intervention to a comparable condition of understanding and promise.

Mr. Chairman, I said at the outset that I had spent my entire working life involved with efforts to improve the process or substance of Federal Government decision-making. It is because of that total immersion that I find it very easy to be, at one and the same time circumspect over the prospects for any particular method or device and also sanguine about the long-term promise for improving government. While I have seen panaceas fall by the wayside, I have more importantly seen the slow and heartening evolution of unquestionable improvement in the ability of public bodies to make good judgments on the basis of improved understanding. There is great promise in the bill this Committee now has under study. It will not overnight cause all to stop eating cakes and ale but it will set in motion further serious efforts to improve the accountability and the quality of government—unless it is oversold or is implemented in a frenzy or with unrealistic expectations.

That completes my statement. I thank you for the opportunity to offer my views and I would be pleased to answer questions.

The CHAIRMAN. Thank you, Mr. Gorham, for a superb statement. I appreciate very much your being with us this morning. Your statement reflects a deep understanding, particularly of the evaluation process which we all talk about a great deal, but experience only slightly.

Are there questions from members of the committee?

Mrs. Holt.

Mrs. HOLT. We heard testimony yesterday emphasizing the need for evaluation at the program level—in other words, that the low echelon managers of programs would have to come forth—and I apologize for not hearing all of your testimony, but it seems to me that the only way that you are going to bring that about is through incentives to do that kind of evaluation. I do not see any way in the world that we could build standards into legislation that would set the right pace for all programs.

How do you feel about incentives to lower echelon managers?

Mr. GORDON. There should be incentives to lower echelon managers to manage better. And certainly evaluation, by whatever name is chosen for evaluations used by most managers in managing their programs.

What people in positions above those managers should do to strengthen the incentives probably involves finding ways of measuring what their programs do, rewarding them for doing well, and penalizing them for doing badly. They would then, I believe, find the internal

mechanisms necessary to improve. The problem is finding ways of rewarding good and penalizing poor management. In any case I don't think that rhetoric or incentives to spend more money on evaluations would be terribly productive.

As far as whether evaluation is necessary above the program manager level, I certainly think it is. The Congress needs information about what is happening with the public money being spent. I cannot think of another way for Congress to perform its oversight function. Acquiring useful performance information is difficult.

It is difficult in part because of the obscurity concerning objectives in much legislation. I understand that it is a necessary condition for passing much legislation. But when it comes to running a program, a manager must decide what he is going to do.

Mrs. HOLT. This morning, Mr. Gorham, I had an experience with a regional office of the Labor Department. We have been having great difficulty with them. They won't answer the phone, they hang up on us, they won't call back, they lose files. So we had the regional director and the local manager into our office. We found they are adding temporary people because they don't have money to add permanent people. These people are unqualified and untrained. They are going on completely unable to run the office. Well, anybody can take a look at that and see what is wrong. But in questioning them, I find that they are getting a lot of frivolous injury complaints that really have no basis at all. So it seems to me that it gets back to that. And anybody who is capable of being a program manager could take a look at what is happening in that office and make improvement. But you are not going to legislate that kind of thing.

Mr. GORHAM. I agree with that. You probably cannot legislate that kind of thing.

Mrs. HOLT. Thank you.

The CHAIRMAN. Mr. Derrick.

Mr. DERRICK. You know important things that go in programs are sometimes vague and sometimes conflict with each other. What we often get down to is the question of values in interpreting the results of evaluation studies. Is there any way to avoid having evaluation research being inconclusive? In other words, aren't we suggesting that these would have to continue to be made even with zero-base budgeting?

Mr. GORHAM. I agree with that statement. I think there will always be a great deal of legislation which is unclear in intent.

That is one reason there will always be inconclusive evaluation.

Mr. DERRICK. The point is, regardless of having all of this information, won't the final judgment be the same?

Mr. GORHAM. Yes.

Mr. DERRICK. Let me ask you one further question:

You mentioned evaluation programs in several areas, would you say that you would run into the same difficulty in evaluating such programs as national parks, highways, student loans, OSHA?

Mr. GORHAM. I think programs vary considerably in their evaluability. One reason they frequently cannot be evaluated is as I have said that the program intent is obscure, or is conflicting. A second reason is that a Government program enters a complex world, where many things are changing and many causing change, only one of

which is the availability of Federal money. Of those changes to isolate which the Federal money did is technically very difficult.

On the other hand, there are some programs with very straightforward objectives in which evaluation is both doable and useful. And I think separating programs into those which are and those which are not evaluable is a terribly important step which should precede beginning the process that we are discussing.

Mr. DERRICK. Really, what you are saying is something that we all know—that the more informed the decision, the better it would be. And this is just merely another means of becoming better informed.

Mr. GORHAM. Right.

Mr. DERRICK. Thank you, I thank you for your statement. I thought it was most informative.

Mr. CONABLE. Mr. Gorham, I follow what you are saying, the thrust of your statement—I am inclined to agree with it, in kind of despair at this technique. There is a lot in the technique of zero-base budgeting. The methods of performance are obviously going to be different for every program. They have got to be. You are dealing with human resources, and not just dollar signs.

Do you think that trying to adopt a discipline of this sort carries with it a disproportionate risk that the measures of performance will become purely quantitative—how many people are we reaching with this program; how much are they being benefited by it—when in fact in the human experience you are dealing with a lot of imponderables that defy quantification?

Mr. GORHAM. I think there is a risk, but the risk does not have a large cost associated with it, because Congress in its wisdom can understand what they have when they are given numbers. The full effects of a program on the structure of the society are probably not amenable to evaluation, but that would be fully appreciated, it seems to me, by legislators.

Mr. CONABLE. When I look at a program like the treatment of the renal failures in the health field—tremendous amount of money going to a comparatively few people. How do you measure the value of the human life?

Well, it just seems to me that we are dealing with something that kind of defies quantification at this point. And that is true when you are talking about the social impact of a welfare program, too. And yet, you have got to strive for efficiency and for performance according to some term.

I am just wondering if we get over into formulas, such as are involved in this legislation, and start emphasizing that, if there isn't a good deal of danger that it will affect our priorities in ways that might make Government a little less human. I am expressing a doubt. I don't know the answer.

Mr. GORHAM. I don't think the damage is large. Look at the makeup of the Congress. If the Congress were made up of operations researchers and mathematicians, it would worry me to introduce a system which leaned very heavily on quantitative measures. But the makeup of the Congress, is very lean in people trained in quantitative methods. It is made up of individuals whose training is in nonquantitative fields, where the sorts of concerns you have would be very much on their minds as well. They would not be swept away

by a dazzling display of numbers, but would continue to ask the most relevant questions, even when they are not answerable quantitatively.

Mr. CONABLE. Thank you.

The CHAIRMAN. Mr. Gorham, I have one more question.

I am searching for the practical manner in which this concept, which I think has merit, could apply to this institution. I would like to see a better process for control of Government programs. I hope it comes about within a limited period of time so that the American public does not abandon all hope in what we are doing. I think too many programs are tumbling now. In other words, we have a program on a program, and instead of correcting one, we add another one. It is the nature of the institution. And so I would ask for a trigger mechanism to move us to review what we are doing instead of just continuing on. We refer to this as sunset legislation.

Let us try another alternative. I keep trying to find some way out of this. Instead of sunset, let's go to sunrise. Suppose we were to say that for all entitlement programs, and all formula programs, the amount spent the year before would be fixed and any additional amount would be required to be passed on by the Congress. In other words, it is similar to what this committee did this year. This has since been submerged in a welter of arguments and conflicting points. But our basic thrust was rather simple. We said, "Let's try to hold all existing programs within a certain limit, and then provide something for some new initiatives." The whole thrust of the last 2 years has been to achieve some kind of controllability.

Is it possible to implement this proposal through a rational sequence and, rather than requiring reauthorization, requiring that any additional amounts to be spent in any program must be authorized anew? It is basically what was done with title XX, for example, which I believe you mentioned in your statement. I do not know if it was successful. This program was in the process of exploding, as States found a way of just adding on new services. The Ways and Means Committee finally said, "All right, there will be a ceiling, and you cannot spend any more than that unless we say you can."

Is that possible? Can that be evaluated?

Mr. GORHAM. Certainly that is the procedure that has been used for budgeting in my memory. The procedure has basically been incremental budgeting. Although that concept is less potentially—

The CHAIRMAN. It is not being done in the area of entitlement programs and trust funds which are a major portion of the budget. This is where we are experiencing the most volatility at the moment.

Mr. GORHAM. The open ended—

The CHAIRMAN. The open ended programs.

Mr. GORHAM. Well, clearly, if the object is to get control of runaway spending programs, to require justification of the increment as in title XX would seem to be doable. I do not think it is a substitute for the intent of the bills that you have. In effect, though it is less portentous, to do a reasonable job along the lines you are describing, is almost the same thing you would have to do in a zero-base review. You have to get some sense of the conversion of those incremental dollars into tangible benefits.

The CHAIRMAN. All I am trying to find—and I have asked all the witnesses this same question. Is some kind of a practical trigger mechanism that this committee could use in the budget process, and that the other committees could use for reviewing these programs?

And it might not work, but at least it would provide—for example, in the food stamp program, that the amount of money to be spent over the last year's amount would have to be authorized.

I am trying to figure out how you achieve this selectivity, because the committees themselves, as was mentioned by Mrs. Holt, do not really have an incentive to review these programs until somewhere in this institution they see that there is a reward in it, or some group waiving a stick. Otherwise, they simply continue to grow. And the decisions that have to be made, for example, with food stamps, are: Do you continue with the working poor; is the best way to do it to give food stamps; or transfer everything into a cash program? Half of the reason for the food stamp program is now gone, which was to get rid of excess commodities. In other words, a Public Law 480 for our people. I do not think anybody in the United States now believes that there is a massive farm surplus problem.

Mr. GORHAM. If the problem really is to close the end on open ended legislation, anything that specified preconditions before more spending takes place would obviously meet that purpose.

THE CHAIRMAN. It is kind of half way between total sunset and what we are doing now, is it not?

Mr. GORHAM. Yes.

The CHAIRMAN. Thank you very much, Mr. Gorham, for your testimony. We appreciate your being here today, and your excellent presentation.

Mr. GORHAM. Thank you.

The CHAIRMAN. The following individuals and groups have requested to be allowed to testify, and because of our limited time, the chair asked them to submit written testimony: David Walker, Advisory Commission on Intergovernmental Relations—ACIR; Aaron Wildavsky, Dean, School of Public Policy, Berkeley, Calif.; American Enterprise Institute; Congressional Budget Office; Robert Mowitz, director, Institute of Public Administration, Penn State; and Dr. Robert Salisbury, director, Center for Public Policy Analysis, Washington University, St. Louis, Mo.

Is there any objection to statements of these groups being included in the record following the testimony that has taken place?

If not, without objection, they will be allowed to submit their testimony for the record.

[The statements referred to by Chairman Adams may be found on p. 121.]

Mrs. HOLT. Mr. Chairman, will we get copies of that?

The CHAIRMAN. Yes, copies will be forwarded. In fact, is there any objection by members of the task force to the total record being printed, because it is easier to distribute that to the members of the task force and the others, rather than doing it in mimeographed form.

Mr. CONABLE. I wonder, Mr. Chairman, if you want to include verbatim all that testimony. In some cases a summary may be adequate.

The CHAIRMAN. Yes. All right. With that caveat, without objection, we will make the record available, but we will print the record of this hearing.

If there is no further business to come before the committee, the committee stands at recess.

SUPPLEMENTAL MATERIAL REQUESTED BY
CHAIRMAN ADAMS

POLICY ANALYSIS IS WHAT INFORMATION SYSTEMS ARE NOT*

(By Aaron Wildavsky, Dean, Graduate School of Public Policy, University of California, Berkeley)

Where traditional modes of decision-making were anti-analytical because they suffered arrested development at the stage of inputs—comparing effort instead of accomplishment—modern information systems, by way of excessive reaction formation, have become fixated on objectives. Policy analysis, by contrast, compares programs. Only programs combine the compromises between resources and objectives that make for viable alternatives. Resources change objectives—a million dollars might make one think of different things to do than would a thousand—as much as the other way around. Each analytic iteration, as well as every practical application, should teach us as much about what we prefer as about how much we put in. We learn to choose by knowing what we cannot do as well as by what we might wish to try. Ends and means are chosen simultaneously, and what life has joined policy analysis must not rend asunder.

Policy analysis involves the creation of problems that are solvable by given organizations in a particular arena of action. A policy analytical problem, then, cannot exist apart from a tentative solution, and its solution is part of an organization—a stable structure of incentives—without which there can be no will to act.

Perfect organizations have no problems. Mechanisms whose parts fit perfectly create no friction, make no noise, allow no error. Where there is no error, there can be no analysis. Policy analysis serves organizations that want to correct their mistakes. These self-evaluating organizations¹ are the opposite of—as Michel Crozier defines bureaucracy—“an organization that cannot correct its behavior by learning from its mistakes.”² How are organizations supposed to learn? By using the internal mechanisms specialized to this purpose, their own management information systems.

What, exactly, are management information systems? They are bodies of data reported on a regular basis. Let us define data (a laundry list, a telephone directory) as any bit, information as data ordered to affect choice, and knowledge as information utilized within a range of desired consequences. Presumably these bits of data are tied together and thus form a “system.” Now the usual meaning of “system” is any functional interrelationship among parts—a model or theory whose consequences, or the probability of their occurrence, are predictable from its constituent elements. Data becomes information by participating in a system or model or theory that organizations manipulate to produce knowledge. If knowledge about the complex interaction of policies within society were available (so that the consequences of alternatives could be known in advance of experience) and organizations were willing and able to use it, the object of management information systems would be achieved as soon as their “moniker” (MIS) was applied. There could never be an uninformative MIS. Where there was a system, by definition, there would be a way.

*Revised after being delivered on May 31, 1976, as one of the University of Stockholm Lectures on Human, Global and Universal Problems. While teaching a two week seminar on Converting Data Into Information, I looked for a Swedish example; this was soon forthcoming when I visited the VASA museum, housing the retrieved capital ship of its time (mid 17th Century), which sank almost immediately upon launching. Thinking an inquiry must have been held (it was) I discovered that the Captain had in fact feared the ship might capsize because it was not properly balanced. He passed his fears on to the Admiral who must have been impressed because he ordered the appropriate test—simulated sea waves made by sailors running together from side to side of this pride (with its marvelous decorative sculptures and innumerable heavy guns) of the Royal Swedish Navy. During the tests the ship leaned way over to one side. Apparently the Admiral was so deeply disturbed he repressed the whole thing because nothing more was said about this error until the VASA, having barely cleared the protective harbor banks, listed so far over it sank straight to the bottom.

¹ Aaron Wildavsky, “The Self-Evaluating Organization,” *Public Administration Review*, Vol. XXXII, September/October 1972, No. 5, pp. 509-20; see also “Evaluation as an Organizational Problem,” in Jeanne Nienaber and Aaron Wildavsky, *The Budgeting and Evaluation of Federal Recreation Programs, or Money Doesn't Grow on Trees*, (New York, Basic Books, 1973), pp. 3-36.

² Michel Crozier, *The Bureaucratic Phenomenon*, (Chicago, University of Chicago Press, 1964), pp. 186-187. See also Martin Landau, “On the Concept of a Self Correcting Organization,” *Public Administration Review*, (Vol. 33, No. 6, November/December, 1973), pp. 533-542.

Yet information theory, as discussed in the literature, clearly refers to inputs and outputs of data, to data storage and data retrieval, but not necessarily to any external referent in the world of action. For purposes of policy analysis, where analysis includes action, however, information is any communication by which organizations detect and correct error. Thus management information system are misnamed: they are really made up of dumb data, which assume the corresponding intelligence that must be proved—namely, that data, in fact, will be converted into information that public agencies use to overcome error. To no great surprise, this is the very same feat—converting data into information—that policy analysis is supposed to accomplish. By seeing what has gone wrong with MIS, perhaps we can discern by contrast what is supposed to go right with policy analysis.

I shall begin by discussing how major modern information systems—PERT, MBO, PPBS, SI—fail at converting data into information and end by suggesting that policy analysis is an attempt to learn from their defects. Lest the suspense prove unbearable, I will criticize information systems as un-theoretical, non-organizational, and a-historical. What is policy analysis? The reverse.

INFORMATION SYSTEMS

PERT or CPM

PERT (Program Evaluation Review Technique) or, more specifically, the Critical Path Method (CPM), is supposed to help us manage a complex task by discovering the critical path, the longest, the most difficult path—and planning everything else around it. Inherently, this seems plausible. Yet the few studies that exist suggest that outside of construction, where one activity tends to follow another, PERT is rarely successful.³ Why not?

PERT depends on interrogating employees. That is, you say, “Charlie, how long do you think this is going to take. You’re the expert in the field.” This leads to problems of discount and of motivation. The discount problem is “Does Charlie know—how expert is his expertise?” The motivation problem is that companies soon learn it is in their interest at various times to estimate slower or faster. If they want the contract they may say faster; if they want to get more money they may say slower. Since employees often are rewarded by their ability to meet or exceed targets, they have a further interest in biasing their estimates on the high rather than the low side. How are we to know, then, whether these persons really know and whether, indeed, they are motivated to tell the truth as they know it?

This perplexity hides a puzzle: why is there only one critical path? After all, the larger the project, the more separate paths needed, the lower the absolute probability any single path will be the critical one.

Use of a mathematical function lends PERT a spurious specificity, but Harvey Sapolsky’s splendid book on the Polaris missile contains the true story.⁴ Construction of the Polaris missile is an example of brilliant management and one instance of this brilliance was to be known as an organization with brilliant management so that external agencies would leave it alone. When asked if they would use PERT, Polaris’ managers said they would not use a formula for anything important. Rather they told somebody to develop a method that would look scientific so innovative management could be cited as a rationale for escaping outside control.

Subsequently PERT spread not only in governments but to industrial firms all over the world. This rapid diffusion raises an intriguing question: What are all these wise men thinking when they adopt PERT? One possibility is simply that PERT is fashionable and they go along with it just as with so many other fads. A better answer, however, is that PERT serves certain functions not anticipated by its original creators. Whereas PERT originally was designed to figure out the probability distribution of paths to achieving a given target, now it has been adapted to doing just the reverse—deciding what the original target should be. PERT gives managers a brush with which to gloss over their activities with a scientific patina. PERT provides a vehicle for negotiation over scheduling and a plausible answer to an otherwise disturbing question—Why are we here?—whose answer is, because the flow chart shows we are on the critical path.

³ C. R. Odum and E. Blystone, “A Case Study of CPM in a Manufacturing Situation”, *Journal of Industrial Engineering* (Vol. 15, November/December, 1974), pp. 306-310; C. P. Gray and R. Reiman, “PERT Simulation”, *Journal of Systems Management* (Vol. 20, March, 1969), pp. 18-23; K. MacCrimmon and C. Kyavec, “An Analytical Study of the PERT Assumptions”, *Operations Research* (January/February, 1964), pp. 16-37; and an excellent student paper by Jonathan Bendor, “The Seven-Fold Path to PERT”.

⁴ Harvey M. Sapolsky, *The Polaris System Development: Bureaucratic and Programmatic Success in Government* (Cambridge, Harvard University Press, 1972).

From this experience we should learn that the function of information systems need not be to convey information to the sponsoring organization but rather rationalization from it to a hopefully less critical world. The lesson of Management by Objectives is that what may begin as deception of others—Look what wonderful objectives our organization has got!—often ends up as self-deception—Ordering objectives equals analyzing problems!—as well.

Management by objectives

The idea behind Management by Objectives, MBO, is that objectives should be specified, and that management and workers should agree on the results by which workers are to be judged in accordance with these objectives. What possibly could be wrong with so appealing an idea? Managers *should* have objectives for their organizations and workers *should* be held to account for achieving results. MBO, in a word, is a restatement of good management based on rational choice for effective decision-making. The trouble is that the attempt to formalize procedures for choosing objectives without considering organizational dynamics leads to the opposite of what was intended—bad management, irrational choice, and ineffective decision-making. It is not that sophisticated practitioners do not realize the pitfalls but that, having dug the pits themselves, having semantically separated objectives from resources they express surprise that practitioners keep falling into them.

As its name implies, MBO results in a fixation on forms for objectives; invariably, it involves listing objectives so that the unit involved can pass them on to their superiors. But objectives by themselves are meaningless; they suggest that everything may be obtained and nothing need be given up. Objectives make sense only in the context of resources available to achieve them, together with an understanding of alternatives forgone. Yet considering opportunity costs immediately suggests a full-scale analysis, which, presumably, MBO is designed to avoid. Otherwise, the implication would be that choice involves complex considerations surrounding a multitude of possible objectives hedged in by numerous constraints; needless to say, this would deprive MBO of the simplicity that is its chief selling point.

The main product of MBO, as experience in the United States federal government suggests, is, literally, a series of objectives. Aside from the unnecessary paper work, such exercises are self defeating because they become mechanisms for avoiding rather than making choices. Long lists of objectives are useless because rarely do resources remain beyond the first few. The experience of the various federal commissions on national priorities, for instance, is that there is no point in listing 846 or even 79 national objectives because almost all the money is gone after the first three or four are achieved. If you allow me one or two national budget priorities—say social security supported entirely from general revenues—you can skip the other thousands because there won't be anything left to support them. If choosing objectives means abandoning choice, choosing objectives is a bad idea.

Once upon a time there were a mere million ways of not doing anything in organizations; now we have the million-and-first—called discussing objectives through infinite regression. "Let's talk about our objectives, Harry. No, not those objectives, Joe, the ones behind them. Well, Josephine, those are the wrong objectives to talk about because if they were the right objectives we would know about them already." Which is to say that any objective previously thought of obviously can't be the objective that is supposed to be discussed. Evidently there can be no virtue *per se* in discussing objectives.

The larger the number of objectives, the greater the likelihood that some organizational activity will somehow contribute to it, the less the need to give up one thing for another. Public agencies prefer more objectives rather than less so whatever consequences they cause are more likely to fit under one of them. Every one knows that objectives of public agencies tend to be multiple, conflicting, and vague, multiple and conflicting because different people want different things with varying degrees of intensity, and vague because they will often be unable to agree if they have to agree beforehand exactly on what they agree. Reconciling these conflicts is not made easier by telling bureaucrats that their strategic behavior—staking out their own objectives as a prelude to bargaining—has become sanctified as an object of virtue, indeed as the essence of rationality itself.

In sum, a rational manager does not manage by objectives alone. To this the evident riposte is that MBO is just another way of smuggling analysis into government. Obviously, its proponents say, MBO must deal with resource allocation, personnel systems, planning for the future, incentives for performance, adaptation to emerging trends—that is, to practically everything. By the time Peter F.

Drucker, a founding father of MBO, gets to the end of a recent article, in which he effectively challenges every basis tenet of this movement, he winds up with the one thing on which everyone can agree about every information system: "However, its success depends upon the administrator: in applying MBO he or she must obtain the right results, both with respect to *objectives* and to *management*."⁵ This, of course, is not a particular answer but a general restatement of all the questions. Listing objectives is the operational part of MBO, which is why it keeps happening, while the hortatory part tells managers to achieve "right results." Amen!

The other side of MBO is the assumed community of interests between a manager who wishes to exert control and a worker who wishes to be judged fairly for his efforts. Supposedly, they will concur on criteria against which worker efforts are to be measured. Leaving aside the knotty problems of what these objectives are supposed to be, and how one can tell whether a particular kind of effort contributes to them, there is a substantial literature warning about unanticipated consequences of inappropriate criteria.⁶ If there is only one criterion, chances are it will not encompass the multifaceted nature of the activities. Paying off by pieces may lead to deterioration in quality, and paying off by costs may lead to deferred maintenance. With many criteria it becomes difficult to establish the contribution of each worker or unit to each criterion. Without reciprocity, without inducements to secure their contributions, moreover, workers will destroy data or feed in random numbers to show once again that you can't get something for nothing. When exchange is mutual, so is control, leaving the search for acceptable bargains exactly where it was before MBO entered the picture. Converting data into information is a game at which more than one can play.

Instead of assuming a compatibility of interests, it is wiser to realize that in the nature of things different individuals and units have somewhat opposing interests; thus it is more productive to concentrate on devising mechanisms which either make it in their interest to cooperate, or that will compensate them for expected losses. By putting the emphasis on agreement about objectives, critical problems of organizational design—how to relate people and activities so that errors became evident and mistakes get corrected—are subsumed under the surface sentimentality of human-relations jargon.

Social indicators

The lack of theory with which to read the signs of the times to know whither we are heading is similarly submerged under slogans about social indicators being part of social systems. The idea behind social indicators (SI) is to find measures—usually a numerical time series—showing the state of health or welfare of various sectors of the population. Social indicators sometimes are supposed to have a normative thrust in that they not only tell us where we are but suggest where we ought to go.

Social indicators are modeled on economic indicators. If one knows about freightcar loadings or about how many corrugated boxes are sold, such trends might give an indirect measure of economic activity. But their usefulness depends on how the economist conceives the economic system, a conception more real than the (non-existent) notion of the sociologist about social system.⁷ Even at that, a few years ago we had more confidence in our understanding of economic system than we do now because "stagflation" had not yet been experienced. If unemployment goes along with inflation, instead of the one limiting the other,

⁵ Peter F. Drucker, "What Results Should You Expect? A User's Guide to MBO" (see *Symposium* below) pp. 12-19. Among many other items that might be cited see Daniel Froissart, "What Can Be Learned From Management By Objective Failures," *Management By Objectives* (Vol. II, No. 1, Summer, 1972), pp. 30-34; Joel Havemann, "Administration Report/OMB Begins Major Program to Identify and Attain Presidential Goals," *National Journal* (June 2, 1973), pp. 783-793; Joel Havemann, "White House Report/OMB's 'Management-By-Objectives' Produces Goals of Uneven Quality," *National Journal* (August 18, 1973), pp. 1201-1210; Peter Hines, "Will the Real Management By Objectives Please Stand Up!," *Management By Objectives* (Vol. I, No. 2, October 1971), pp. 48-51; Jong S. Jun, "Management By Objectives In A Government Agency: The case of the Social and Rehabilitation Service," *The Social and Rehabilitation Service, Department of HEW* (August 1973); The "Symposium on Management By Objectives in the Public Sector," *Public Administration Review*, Vol. 36 (Jan/Feb 1976), pp. 1-45; Steven Kerr, "Overcoming the Dysfunction of MBO," *Management By Objectives*, Vol. 5, No. 1, pp. 13-19; and an excellent student paper by Thomas P. Grumbly, "Fathoming A Style: Management By Objectives in the Public Realm."

⁶ A brief introduction to this literature might include Joseph S. Berliner, *Factory and Manager in the U.S.S.R.* (Cambridge, Harvard University Press, 1957), pp. 318-329; Frank J. Jasinsky, "Use and Misuse of Efficiency Controls," *Harvard Business Review* (Vol. XXIV, July/August 1956), pp. 105-112; V. F. Ridgway, "Research Notes and Comments: Disfunctional Consequences of Performance Measurements," *Administrative Science Quarterly* (Vol. I, No. 2, September 1956), pp. 240-247; and works too numerous to mention by Chris Argyris.

⁷ See Eleanor Bernet Sheldon and Howard E. Freeman, "Notes on Social Indicators: Promises and Potential," *Policy Sciences* (Vol. I, Spring, 1970), pp. 97-111.

this unhappy liaison suggests that the interaction of these basic elements is not well understood, which undermines the notion of system. And, unless they are tied to systemic relationships, indicators are just random numbers.

Social theory is supposed to be societal in scope by showing how one social change affects another. However, if we do not care about interaction effects, we can mitigate the severity of almost any isolated problem. Dealing with only one indicator—separating “social” from “indicator”—is surprisingly simple. Hence Wildavsky’s Law: Movement on any single indicator can be maximized provided society is willing to minimize all other indicators. Here is a suitably simple-minded solution to the problem of dope: Catch addicts, not pushers. The error (says the government) is to believe that pushers create addicts, whereas the truth is just the other way around; without addicts there wouldn’t be pushers. The solution is to first warn and second shoot addicts. What this will do is make the pain of addiction exceed the pleasure. It is easy to stop addiction, evidently, so long as we don’t care about life, liberty, and the pursuit of happiness.

Social indicators are measures of outputs of social processes. Yet, without being anchored in theory that is part of practice, social indicators can neither be “social” (i.e. partake of social relations) nor “indicators” (i.e., point to anything that is likely to occur). Social indicators are meaningful only when knowledge and power meet, which is to say, only when they indicate right action. What’s the matter, then, with seeing indicators as attention-getting devices that suggest inquiry leading to remedial action? Nothing and everything; nothing in that, by capturing public attention, critical numbers or trend lines have been known to serve as catalysts in the search for system; everything in that time and money are likely to be wasted and action—given the lack of knowledge—to have unforeseen and unfortunate consequences, including the preemption of better programs in the future. After all, a fast train is worse than a slow one if it takes you in the wrong direction.

I have no objection, of course, to research on SI if it is a cover for basic research into the causes and consequences of public policies. The “indicators” then become the rationale for creating the theory into which they will fit. If social science research smells more sweetly under a less acrid acronym, so be it.

If instead of speaking pseudo-simply of social indicators, we spoke correctly but complexly of social theory applied to public policy, the immensity of the task—creation of predictive theories of the interaction of all major sectors of public policy in a specific society—would be evident. Failure to practice these preachment has become all-too-evident in program budgeting.

Program budgeting

Planning, programing, budgeting systems (PPBS or program budgeting) require a structure in which all policies related to common objectives are compared for cost and effectiveness. Not a single theory for a particular area of policy but, rather, a series of interrelated theories for all policies is required. If we barely sense the relation between inputs and outputs in any single area of policy, however how likely are we to know what these relationships are across the widest realm of policy? As one area of ignorance interacts exponentially with other areas, we get not an arithmetic but a geometric increase in ignorance.

Program budgeting does not work anywhere in the world it has been tried.⁸ The reason for this failure can be deduced backward. What would it be like if we had it? Program budgeting is like the simultaneous equation of society in the sky. If program budgeting worked, every program would be connected to every other with full knowledge of their consequences, and all social problems would be solved simultaneously. Program budgeting fails because its cognitive requirements—relating causes to consequences in all important areas of policy—are beyond individual or collective human capacity.

But wouldn’t program budgeting be desirable even if it is not feasible? Who can deny the desirability, not to say rationality, of establishing priorities among objectives and allocating resources according to the degree that programs contribute to them? I do; for economic and organizational rationality are not the same. By sacrificing organizational incentives in the name of economic efficiency, program budgeting serves neither.

The good organization is interested in discovering and correcting its own mistakes. The higher the cost of error—not only in terms of money but also in personnel, programs, and prerogatives—the less the chance anything will be done

⁸ For evidence see Aaron Wildavsky, *Budgeting: A Comparative Theory of Budgetary Processes* (Little Brown, 1975), *passim*.

about them. Organizations should be designed, therefore, to make errors visible and correctible, that is noticeable and reversible, which in turn is to say, cheap and affordable.

Program budgeting increases rather than decreases the cost of correcting error. The great complaint about bureaucracies is their rigidity. As things stand, the object of organizational affection is the bureau as serviced by the usual line-item categories from which people, money, and facilities flow. Viewed from the standpoint of bureau interests, programs to some extent are negotiable; some can be increased and others decreased while keeping the agency on an even keel or, if necessary, adjusting it to less happy times, without calling into question its very existence. Line-item budgeting, precisely because its categories (personnel, maintenance, supplies) do not relate directly to programs, are easier to change. Budgeting by programs, precisely because money flows to objectives, makes it difficult to abandon objectives without abandoning the organization that gets its money for them.

Notice I do not say it is inadvisable for analysis to take place at the level of programs and policies. On the contrary, there is every reason to encourage analytical thrusts from different directions and dimensions of policy, provided only that no single one is encased in concrete and be considered the final way. It is better that non-programmatic categories be used in formal budget categories, thus permitting a diversity of analytical perspectives, than that a temporary analytic insight be made the permanent perspective through which money is funneled.

If error is to be altered, it must be relatively easy to correct. But PPBS makes it hard. The "systems" in PPBS are characterized by their proponents as highly differentiated and tightly linked. The rationale for program budgeting lies in its connectedness—like programs are grouped together. Program structures are meant to replace the confused concatenations of line-items with clearly differentiated, non-overlapping boundaries; only one set of programs to a structure. This means that a change in one element or structure must result in change reverberating throughout every element in the same system. Instead of altering only neighboring units or central control units, which would make change feasible, all are, so to speak, wired together, so the choice is effectively all or none.

Imagine one of us deciding whether to buy a tie or a kerchief. A simple task, one might think. Suppose, however, that organizational rules require us to keep our entire wardrobe as a unit. If everything must be rearranged when one item is altered, the probability we will do anything is low. The more tightly linked the elements, and the more highly differentiated they are, the greater the probability of error (because the tolerances are so small), and the less the likelihood error will be reported (because with change, every element has to be recalibrated with every other one that was previously adjusted.) Why idealize an information system like PPBS that causes many more mistakes than it can correct? Being caught between revolution (change in everything) and resignation (change in nothing) has little to recommend it.

In the end, no one wants to be the victim. Who, after all, was the client for PPBS in the Federal Government of the United States? If it was the old Bureau of the Budget, then it would have had to accept responsibility for radically rearranging governmental programs. (Indeed, when an analyst actually created a program structure that cast doubt on the validity of most programs sponsored by the Department of Agriculture, he was told in no uncertain terms that his job was to improve, not destroy, the department.⁹)

Once it became clear that the Budget Bureau would not agree to be the client, the Department of Agriculture and its bureaus vied to see who could escape responsibility. This explains what earlier appeared to be an anomalous finding: the bureaus claimed that although they gained no new knowledge from the exercise the department certainly learned a great deal; simultaneously, the department swore it knew it all, but that the bureaus learned a lot.¹⁰ The self-serving aspects of these symmetrical denials were immediately apparent when I first undertook these investigations. At that time I knew only that the data was not used; now, I believe I know why this superabundance of data was never converted into information: PPBS did not provide information relevant to the user at any level.

⁹ Nienaber and Wildavsky, *op. cit.*, pp. 116-142.

¹⁰ See Arthur Hammond and Aaron Wildavsky, "Comprehensive Versus Incremental Budgeting in the Department of Agriculture", *Administrative Science Quarterly* (Vol. 10, No. 3, December, 1965), pp. 321-46.

At the bureau level the questions addressed had to do with whether its existing programs should be abolished or replaced by others. This, to be sure, was a question the bureau not only did not want to answer positively but could not even respond to negatively because it was beyond bureau jurisdiction. To take programs from one bureau and place them in another is reserved for higher authorities—the Department, the President, and Congress. Since the advice was for “them” and not for “us,” it was either doctored to appear impressive or ignored because nothing could be done about it. The Secretary of Agriculture needed information on how he might better allocate resources within his department. Instead he got rationalizations of bureau enterprises.

In the past it has been said that PPBS might have succeeded if it had produced better analyses. This, as structuralists, say, is no accident. It is hard to do useful work for clients who are nonexistent or uninterested. PPBS produced bad analysis because it ignored organizational imperatives—as if analysis could be considered apart from the structure of incentives under which it is done.

PPBS is not a plain solution, it's a fancy way of stating the problem;¹¹ if we could agree on what we wanted, if people would cooperate, if resources were available, if knowledge were adequate, if power were sufficient, if . . . If PPBS is a question in the form of an answer, what is policy analysis? An answer in the form of a question.

COMPARISON

There is no denying the attractive aspects of information systems. Why accept a crazy quilt when there is a critical path leading through the maze? Isn't it better to manage by objectives rather than by procedures for which managers can hardly be held accountable? Shouldn't budgeting be done by programmatic outputs instead of administrative inputs? Why should society suffer later if social indicators of future problems are available now? Who, indeed, would not plan in the present to create a better society in the future? My answer—these are the wrong questions because they passively assume what they must actively try to prevent—is contained in the ensuing comparative analysis of information systems.

Although there has been some scrutiny of the information systems we have been discussing, they have never, so far as I know, been compared critically as modes of problem-solving. It is assumed always that their strengths lie in assisting rational choice, and their weaknesses in coping with the irrational features that political self-interest unfortunately brings to policy-making. My argument will be different. These information systems are defective because they constitute bad advice on what is (and how to get) good policy analysis. At a minimum, analysis tries to get around the lack of theory rather than expect its existence. Analysis works toward embedding itself in organizational incentives, holding information good only if organizations actually use it to do better. Analysis is historically grounded so as to use conflict creatively, for otherwise, by magnifying disagreement, it becomes its own worst problem.

Theory

A promise underlies public policy: if the actions we recommend are undertaken, the good (intended) consequences rather than the bad (unintended) ones actually will come about. Since causal connections are strict—if this, then that—failure to match promise with performance is likely to be high, as is reluctant to acknowledge error. Objectives are kept vague and multiple to expand the range within which observed behavior fits. Goal substitution takes place as the consequences actually caused by programs—say an increase in client self-esteem—replace the objectives originally sought. Goal displacement becomes the norm as an organization seeks to make the variables it can control—its own efforts and processes—the objectives against which it is measured. This is how organizations become justifiers of error instead of creators of knowledge. On all sides theoretical requirements are abandoned—by considering inputs or outputs alone—until there seems to be no error (and hence no truth), and it became impossible to learn from experience.

Social indicators assume the prior existence of a model of society without which they could have no meaning. Managing by objectives alone is better treated as a misguided effort to violate an analytic theorem—treating objectives apart from resources—then as a mode of analysis. The trouble with experts is not only that they may not know what they can and should know, but that they may pretend

¹¹ In this respect, as in others, PPBS resembles comprehensive multisectoral planning. For my views on planning see Aaron Wildavsky, “If Planning is Everything, Maybe It's Nothing”, *Policy Sciences* (Vol. 4, No. 2, June, 1973), pp. 127-53.

to know what is unknown. Routines and rote formulas, like PERT, for instance, risk becoming the problem for which they were created to be the solution. Instead of discovering critical paths, they assume them, thus becoming the chief obstacle to undertaking a quest everyone now believes is over. Swallowing ones own entrails is not usually recommended as a method of nourishment.

The question never is whether there is theory—there always is—but whether it is but a veneer, to mask error, or a hypothesis whose testing serves to uncover error. Economists call this a production function specifying the mix of instruments or inputs that is expected (within some range of probability) to lead to the desired output. Let us suppose the problem is to improve the reading ability of deprived children. It is not enough to think of this as a great idea. Without a production function—what can be done at what cost—school systems that spend as much as three or four times as others show no marked differences in the achievement of their pupils; there are abundant examples of this kind across the realm of policy.

If our society lacks production functions—which is to say, policy relevant theory in most areas we wish to affect—how much more profound must be our ignorance of the consequences of alternative programs across areas of policy and over time. Program budgeting and multi-sectoral planning make huge demands on theory that cannot be met. Who is most misled by this, the proponents who sell these information systems or the politicians who buy them, is debatable. But if these systems represent the best in rational analysis, as many surely believe, and if this presumptuous rationality is doomed to failure, as it certainly is, then the sure loser is policy analysis, with its idea of applying intelligence to policy problems.

Does policy analysis have anything positive to say about relating available knowledge to existing problems? Though analysis has yet to be codified as a craft, its practitioners have developed a number of devices to compensate for ignorance. In one, analysts test their faith that the variables omitted from consideration (always far greater in number than those complexity permits to be included), are less important than the few they may manage to include. Sensitivity studies may bolster their own intuition by showing their recommendations to be unaffected by large variations in the excluded variables. A variety of redundant schemes may insure against uncertainty if the recommended solution turns out to be wrong. Work may proceed in parallel until events reveal what prediction cannot. The dependence of recommendations on assumptions may lead to critical re-examination of these newly discovered basic premises. Where analysis does not consist of applying tested theory to clearly defined contexts, which is most of the time, it is largely concerned with overcoming limited knowledge.

Analysis welcomes constraints.¹² If everything is seen as possible, nothing can be done. To a point, constraints usefully limit the field of inquiry or range of alternatives. By focusing consideration on those instruments available to the organizational level that must act, by dealing only with policy relevant variables, analysts restrict themselves to things that can matter. The art of analysis consists in finding problems—relating resources and objectives—worth solving at the level of action where they occur, within the time frame available, using instruments that interested organizations can control.

Organization

The tension between analysis, which seeks out error and promotes change, and organization, which seeks stability and promotes its existing activities, is inevitable.¹³ If analysis were natural there would be no need to impose it and if it

¹² Giandomenico Majone, "The Role of Constraints in Policy Analysis," *Quality and Quantity* (new series, Vol. 8, 1974), pp. 65-76. Analysis, as the derivation of the word suggests, involves decomposition. Following the cybernetic paradigm, variety in response is used to counter variety in the environment. Decision rules aim to keep performance not perfect, but within acceptable limits. Problems are approached through successive approximations. Complexity is countered by historicity: most things are expected to remain as they are in order to attack the presenting problems sequentially. Policy recommendations may or may not be wholesale, drastic, and simultaneous; problem-solving, by observation, is almost always piecemeal, serial, and remedial. I refer here, of course, to the pioneering work of Charles E. Lindblom especially "Policy Analysis", Vol. XLVIII, *American Economic Review* (June 1958), pp. 298-312; "The Science of 'Muddling Through'", Vol. XIX, *Public Administration Review* (Spring 1959), pp. 79-88; and David Braybrooke and Charles E. Lindblom, *A Strategy for Decision* (New York, Free Press of Glencoe, 1963). In the preface to the second edition of *The Politics of the Budgetary Process* (Little, Brown, 1974), I express some doubt "whether agencies do, in fact, use the undoubtedly incremental moves they make to observe what happens, evaluate the consequences, and adjust their activities accordingly. . . . There is no getting away from theory of cause and effect that relates actions to consequences. Without such a theory . . . there may be no practical way either to separate the consequences of one small act from those of countless others or, amidst the confusing welter of events, to trace them back to their origins as intentional actions" (xxiii). Time and experience, however, have only strengthened my appreciation of Lindblom's work for its extraordinary insights into individual problem solving.

¹³ "The Self-Evaluating Organization," *op. cit.*

were powerful it would not so often be defeated. Analysis must win support from existing bureaucracies while pursuing anti-bureaucratic policies. That is why the bulk of analysis is rejected by the organizations for which it is intended.¹⁴ Better information alone will not matter without incentives making it worth-while for organizations to use it. Struggling with organization incentives, therefore, is a perennial (perhaps the paramount) problem of policy analysis.

Evaluation, for example, is an organizational problem. Suppose one asks why the multitude of evaluations of governmental programs now carried on so seldom are used to improve them? An important part of the answer is that merely asking whether a program is accomplishing its objectives does not necessarily tell anyone what to do about it—no policy-relevant variables, no possibility of intelligent action.¹⁵ Learning that a program is terrible might be relevant to a body with the authority and the desire to abolish it, but is “bloody awful useless” to a program manager who needs to know which of his present (or alternative) activities might be less terrible, in order that improvement can take place. If evaluation does not communicate desirable new alternatives to managers, moreover, they can use evaluation as their own message to the outside world: Leave us alone (cf: PERT) because we have been tried and tested and proved truly efficacious.

Ignoring organizational levels, and the proper approaches to each, is the original sin of modern information systems. PERT gets perverted because the organization that has to supply the data is uninterested in (on the contrary, hostile to) trying to be accurate. PPBS gets pulverized because no organizational level gets information that (a) it is willing to use and (b) that is relevant to the resources at its disposal. MBO either obfuscates objectives, so higher levels will be unable to understand them, or overwhelms the upper echelons with objectives, so they cannot figure out which ones apply. After participating in a lengthy MBO exercise, as a result of which it was decided that the status quo was splendid, a business participant reported: “I suggest this is a conspiracy by the Board to prove the fruitlessness of deviation from established group practice.”¹⁶

The most elaborate evaluation of an MBO operation, “The Case of the Social and Rehabilitation Service,” shows that its chief effects are an increase in paper work and in discussion of objectives, and a decrease in time spent on programmatic activity. When asked what they would recommend as improvements beyond MBO, “Both regional and central administrators mention management accountability and responsibility . . . better teamwork . . . coordination . . . a need for clear mission goals and priorities . . . and the development of management information systems”—in other words, exactly what MBO was supposed to accomplish in the first place. Interviews with 159 top administrators reveal that MBO “. . . is generally perceived by managers and supervisors as a system which reinforces such bureaucratic norms as centralized organizational control and decision-making, paperwork, efficiency emphasis and lack of participation.”¹⁷

Often times MBO, like other information systems, is valued less for its formal apparatus than for the impetus it allegedly gives to policy analysis. If so, the first task of analysts introduced into an organization under the guise of MBO must be to abolish it as an impediment to achieving that rational behaviour which must connect thought and action.

History

To say that contemporary information systems are a-historical is to conclude that they increase the sources of error while decreasing the chances or correcting mistakes. If history is abolished, nothing is settled. Old quarrels become new conflicts. Both calculation and conflict increase exponentially, the former worsening selection, and the later correction, of error. As the number of independent variables grows, because the past is assumed not to limit the future, ability to control the future declines. As mistrust grows with conflict, willingness to admit, and hence to correct, error diminishes. Doing without history is a little like abolishing memory—momentarily convenient, perhaps, but ultimately embarrassing.

¹⁴ David H. Stimson and Ruth H. Stimson, *Operations Research in Hospitals, Diagnosis and Prognosis* (Hospital Research and Education Trust, Chicago, 1972), which evaluates several hundred analyses of hospital administration suggests that a good ninety percent were ignored or opposed by the sponsoring agency.

¹⁵ For an informative study see Victor G. Nielsen, “Why Evaluation Does Not Improve Program Effectiveness,” *Policy Studies Journal* (5 June 1975).

¹⁶ John Brandis, “Managing and Motivating By Objectives in Practice,” *Management by Objectives*, Vol. 4, No. 1 (1974), p. 17.

¹⁷ Jong S. Jun, “Management By Objectives in a Government Agency: The Case of the Social and Rehabilitation Service,” *The Social and Rehabilitation Service*, Department of HEW (August, 1973).

The ideal a-historical information system is zero-base budgeting. The past, as reflected in the budgetary base (common expectations as to amounts and types of funding), is explicitly rejected. There is no yesterday. Nothing is to be taken for granted. Everything at every period is subject to searching scrutiny. As a result, calculations become unmanageable. At last report, the state of Georgia—in which zero-base budgeting currently has become most famous—was trying to budget by somehow surveying some 10,000 elements. Conflict might be catastrophic if state governments did not, in fact, end up doing business very much like it was done before.¹⁸

By comparison, traditional budgeting is highly historical. Base is to budgetary systems as habits are to organisms. A budgetary base is the routinized retention of old solutions. Clinging to last year's agreements is enormously economical of critical resources (particularly time and good interpersonal relations), which would be seriously impaired if all or most past agreements were reexamined yearly. If there is a mechanism for holding on to adequate solutions and sequentially proceeding to solve remaining problems—which focus on increases and decreases to the base—knowledge is more likely to result. Similarly, an agreement-producing process is more likely to work if past agreements can be retained, while the system works on unresolved issues.

Only poor countries come close to zero-base budgeting, not because they wish to do so but because their uncertain financial position continually causes them to go back on old commitments. Because past disputes are part of present conflicts, their budgets lack predictive value; little stated in them is likely to occur.¹⁹ Ahistorical practices, which are a dire consequence of extreme instability and from which all who experience them devoutly desire to escape, should not be considered normative.

Futurism—those decisions society may wish to make in the future—is not policy analysis. Analysis aims to bring information to bear on current decisions. Now these decisions do have future consequences. Taking these consequences into account—acting now to do better later—is what all analysis is about. Because prediction comes at a premium, however, analysis uses history—what has been tried in the past, how past patterns have led to present problems, where past obligations limit future commitments—as a source of both limits and possibilities.²⁰

Often the policy problem is not to agree on what would be best in the future but how to get away from the historical accretions that give social interests a stake in the status quo. Few of us today, for instance, would justify the highly inequitable method (the income tax write-off) the United States uses for governmental support of charity, a method that gives the rich 70 to 2,000 times more power than the poor to direct governmental money to preferred charities. But the poor give to churches while the rich contribute disproportionately to cultural institutions. If equity—giving each dollar contributed the same subsidy—means reducing the income of private universities and museums, which it would, a way to loosen the grip of the past must be found, possibly by compensating or buying out the losers.²¹

What could be more historical than time-series of social indicators? But, at any time, did they indicate anything? If there were models of social systems into which these indicators fit, so their interrelationships were known, one year's indicators could indeed be related to another's. But there weren't and aren't so they can't. Time alone is not history. Retrodiction, not prediction, is the first task of social indicators embedded in social systems. Ability to predict the past (that is history) is what gives us courage to face the future.

ANALYSIS

Policy analysis may be viewed as a reaction against major modern information systems. The pretension of theory is replaced by continual efforts to reformulate hypotheses through action. It is more important to create organizations that

¹⁸ See Wildavsky, *Budgeting*, op. cit.

¹⁹ For numerous examples see Naomi Calden and Aaron Wildavsky, *Planning and Budgeting in Poor Countries* (John Wiley, New York, 1974).

²⁰ Without evaluating work that is done under the name of futurism, it is difficult to answer its leading question: How can we afford not to take the future into account? Suppose we look at the question in another way. Organisms have been known to die not directly from the lethal effects of foreign bodies but from internal exhaustion created by attempting to use all of the hosts' defense mechanisms. Against how many alternative futures, then, can we afford to protect ourselves? Every preemptive action today limits alternatives available tomorrow. This question cannot be answered, at least not now or by me, but it should be understood that futurism is not free.

²¹ David Goode and Aaron Wildavsky, "A Tax By Any Other Name," *Policy Sciences* 7 (forthcoming), 1976.

want to learn than to tell them what they ought to learn. Structure becomes strategy; an organization that expects to self-destruct when it has outlived its usefulness, will use analysis because its self-interest demands self-evaluation of its errors. Analysis uses the legacy of the past to make manageable the present, for creating a future is immensely more difficult when one simultaneously must invent a past.

Policy analysis is about making the inevitable weaknesses in the formulation of public policy—theoretical aridity, organizational rigidity, historical passivity—into sources of strength. Policy analysis is not so much in being as in a state of becoming. Becoming what? What information systems are not, not protectors but correctors of error, not maintainers but changers of preferences.

The great question is: Where do our preferences come from? The answer is: From negotiating between whether we like what we get compared to whether we can get what we like. Policy analysis not only acts out our cultural heritage—the values and beliefs that sustain our social structure—it also creates culture by teaching us how to learn from the tension between what we want and what we can have.

THE PENNSYLVANIA STATE UNIVERSITY,
University Park, Pa., August 6, 1976.

Hon. BROCK ADAMS,
Chairman, Committee on the Budget, U.S. House of Representatives,
Washington, D.C.

DEAR CONGRESSMAN ADAMS: Thank you for the opportunity to submit written testimony concerning the zero-base approach to governmental program evaluation.

From the very beginning of the budgetary reform movement in the early 1920's some students and practitioners of public budgeting have insisted that an essential part of the budget decision cycle consists of; the examination of the results of decisions to determine whether or not the intended results had been accomplished, at what cost; if the intended results did not occur, why not; and if they did occur, were these the results that were still required to satisfy public needs and demands. The fact that no such systematic review of accomplishments has been institutionalized, although the need for it had been recognized for over half a century, is evidence of the political strength of constituencies which programs attract both inside and outside government, and in both the Executive and Legislative branches, which coalesce to resist objective review of program accomplishments. The history of the effort to close military installations, even in cases where the weapons systems they support are obviously obsolete, illustrates the point.

Although a variety of forms of program evaluation have been and continue to be employed throughout the federal establishment, the most recent effort to institutionalize a comprehensive system was the attempt to install a program budgeting system in 1965 through the introduction of what was labeled PPBS. Although the federal government did not succeed in installing an operational program budgeting system, some states and some localities did install program budgeting systems with an ongoing program evaluation capability, so that the state of the art has continued to develop throughout the 1970's.

Zero-base budgeting and Sunset legislation are institutional mechanisms designed to force the type of program review and evaluation that program budgeting is designed to accomplish as a matter of course as part of the annual budget decision cycle. Under established program budgeting systems, such as that in Pennsylvania, the Executive may require a zero-base review of any particular program during a given budget year cycle, but where on-line reporting systems are providing assurance that programs are producing the desired results, there would be no point in forcing these programs to rejustify their existence employing a zero-base review. Sunset laws, of course, would have a similar effect of requiring programs to rejustify themselves after a fixed period of time.

As an advocate, as well as a designer of program budgeting systems, I am in favor of any institutional arrangement which will reinforce the need for constant review to determine whether or not public expenditures are accomplishing the intended public purposes. Nevertheless, there is no reason to assume that the zero-base approach per se will overcome some of the fundamental difficulties that have had to be faced in the development of program budgeting systems.

The first major difficulty is lack of specificity in the statement of program objectives in authorizing legislation, appropriations, and departmental budget requests. In order to determine whether or not a program is succeeding in accomplishing its intended purposes, those purposes must be specified in terms of changes in human behavior or changes in the environment, which are subject to observation and quantification, given available observation and measurement technology. In other words, the ultimate intended impact of the program upon individuals and the environment must be made explicit in order to judge whether or not programs are accomplishing their intended purposes.

A second difficulty has to do with existing program and financial reporting systems. Most program reporting systems account for levels of activity, e.g., number of people trained, but do not report whether or not the effects upon those served was that intended in the original purpose of the program, e.g., the number of those obtaining employment as a result of work training who would not otherwise have obtained employment. Unless there is an established system for reporting the effects of programs on an ongoing basis, there is no way in which they can be

evaluated without special ad hoc studies which become cumbersome if a large number of programs are to be reviewed. To review annually all programs on a zero-base budget approach without such a program reporting system would be impossible. Not only is a program reporting system necessary, but also a program accounting system, if program results are going to be costed as well as counted. The state of the art of governmental program accounting is primitive, and certainly such a capability does not exist across the board in the federal establishment. Unless program results can be linked directly to program costs, meaningful cost effectiveness evaluation cannot be undertaken. It requires a sophisticated accounting system to link program results to costs, and resource decisions made in the absence of such a linkage are no more than random shots in the dark.

The third difficulty has to do with the generation of program alternatives. In many program areas, given explicit objectives and a credible program and financial reporting system, it will quickly be discovered that programs are not accomplishing their intended effects. Discovering what does not work, however, does not automatically produce alternatives which do. The search for alternatives, some of which may lie outside the doctrinal domain of those involved in the program under scrutiny, requires an analytic capability unfettered by traditional doctrine. There is no simple formula for discovering program alternatives. Our basic knowledge of complex human systems places real limits upon alternative generation capability that may not be acknowledged by the various advocates of particular programs (e.g., the LEAA program). Institutionalizing an analytic capability that is capable of challenging popular program doctrine is difficult to accomplish, yet indispensable if relevant alternatives are to be found.

If the three difficulties cited above are overcome, then the zero-base approach provides a useful mechanism for forcing program evaluation and alternative generation. In fact, states such as Pennsylvania with program budgeting systems, selectively apply a zero-base approach to particular programs identified through the Governor's annual Program Policy Guidelines. If the difficulties cited above are not overcome, however, and a zero-base approach is imposed, the results will be a flurry of activity generating vast amounts of paper cluttered with elaborate but dubious statistics. As soon as the dubious credibility of the data become obvious, the technique itself would be questioned, and as was the case with PPBS, budgetary reform would be stalled. Since some states do have program budgeting systems and some employ a zero-base budgeting approach, it would be useful to conduct a careful analysis of their experience. By careful analysis, I have something more in mind than a simple questionnaire. In-depth case studies would be much more useful and none are now available.

I appreciate the opportunity to provide these remarks. I regret that they are tardy, but your request arrived when I was out of the country.

Sincerely,

ROBERT J. MOWITZ,
Director.

WASHINGTON UNIVERSITY,
St. Louis, Mo., July 23, 1976.

Mr. WILLIAM J. CLEARY,
Committee on the Budget, U.S. House of Representatives, Washington, D.C.

DEAR SIR: I write in response to your invitation to comment on the general topic of zero-base budgeting. In recent months this has been an increasingly popular question and has been very appealing to those who seek methods for gaining effective fiscal control over the bureaucracy.

Actually, the various proposals for change are often more symbolic than real. Congress has ample authority now to review from scratch any and all programs if it wishes to, either through the budgeting-appropriations process or through the Government Operations Committees. To be sure, there is a great deal of the current budget that is, in the short run, "uncontrollable" and thus immune from appropriations review, but nothing is exempt from program review.

Effective review, in my judgment, cannot be undertaken on every program at any one turn, however. It should be focused on particular troublesome areas, both to mobilize public attention more effectively and to keep the Congress from being overwhelmed by the task.

I believe there is much to be gained, realistically, by accepting a large measure of "standing decisions," so that attention may effectively be directed to the problem spots. There is a large literature among social scientists that defends the superiority of this method and the impossibility of truly comprehensive review. I think that view is sound.

If every program is subject to periodic zero-base review, the program directors will inevitably spend much of their time and devote a significant part of their resources to the defense of what they are doing. Bureaucratic self-defense is understandable, but if, as I believe, the adoption of comprehensive zero-base budgeting were to encourage these defensive processes, the effect would be to reduce bureaucratic service delivery even further. Surely, this is not what anyone desires.

There are other points to be raised, but the main consideration I wish to urge upon the Committee is the need for caution. Zero-base budgeting is not a panacea and not a substitute for Congressional determination to do a more effective job of administrative oversight. With will and leadership this can be accomplished within the existing machinery and legislative authority.

Sincerely yours,

ROBERT H. SALISBURY,
Director, Center for the Study of Public Affairs,
Professor of Political Science.

ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS,
Washington, D.C., August 4, 1976.

Hon. BROCK ADAMS,
Chairman, Committee on the Budget,
U.S. House of Representatives,
Washington, D.C.

DEAR MR. CHAIRMAN: Pursuant to your letter of July 19, 1976, inviting written testimony on the concepts of zero-based budget review and evaluation, I am happy to respond on behalf of the Advisory Commission on Intergovernmental Relations (ACIR). These concepts have been urged by the Commission for a number of years and are certainly worth serious consideration by your Committee.

Earlier this year, I had occasion to review and testify upon The Government Economy and Spending Reform Act of 1976 (S. 2925). Since that bill addresses all the basic concepts involved in zero-based budgeting, it is appropriate to repeat that testimony here for the benefit of your Committee.

The Government Economy and Spending Reform Act of 1976 (S. 2925) would help to implement two long standing recommendations made by the Advisory Commission on Intergovernmental Relations (ACIR). The first is periodic review of Federal-aid programs (a recommendation originally adopted by the Commission on June 15, 1961 in report A-8 entitled *Periodic Congressional Reassessment of Federal Grants-in-Aid to State and Local Government*), and the second is grant consolidation (originally adopted by the Commission in 1967 as Recommendation No. 2 in Volume I of report A-31, entitled *Fiscal Balance in the American Federal System*).

The recommended periodic Congressional review is now partially provided for in the Intergovernmental Cooperation Act of 1968. Yet the process covers only those grants with no termination date and does not stipulate a review procedure for programs having specific authorization periods. In practice, it has rarely been adhered to, since there is nothing in Title VI of the Act to force Committee compliance with the review process. The Commission's grant consolidation recommendation—calling upon Congress to give the President power to submit grant consolidation plans which would go into effect unless vetoed by the Congress within 90 days—has been urged by ACIR in the last several Congresses, but has not been enacted (though it did pass the Senate once).

S. 2925 would strengthen the periodic review process already authorized, substantially expand its scope and its likelihood of becoming effective, and take a new Congressionally oriented approach toward Federal program simplification and consolidation on an even broader scale than the Commission has recommended.

The bill has the following five basic provisions:

1. Periodic Congressional review would be required for all Federal programs, not just Federal-aid programs as ACIR recommended, and this broad program review and evaluation would be zero-based—that is, it would require a rejustification of each program as though it had never existed before. This review by the relevant committees of Congress would be backed up with parallel reviews by the GAO, the Congressional Budget Office, and the executive branch.

2. This periodic review process would be enforced by means of an automatic termination requirement for any program not specifically reauthorized as a result of this zero-based review process by the end of the proposed four year authorization cycle. The only programs exempt from this termination procedure would be interest on the national debt, and payments to individuals under programs such as railroad retirement, social security, civil service retirement, and medicare.

3. All of the Federal programs subject to periodic review would be systematically grouped and scheduled for review by major budget functions. This would enhance opportunities for program simplification, interrelation, and consolidation. It also would help to weed out inactive, ineffective, and duplicative programs, as well as to identify those that are managerially, programmatically, and fiscally sound. Moreover, this staged review of entire policy areas would help to control the workload of Congressional committees and agencies, as well as the executive branch, and would facilitate joint consideration of interrelated programs by then various committees of Congress having concurrent jurisdiction. The latter, of course, has been a perennial problem in Congress' deliberations.

4. Each year the President's budget would be required to contain an evaluation of progress toward the stated objectives of each program in the budget. This provision is similar to one proposed for the last seven years in amendments to the Intergovernmental Cooperation Act which would have called upon each domestic Federal agency to make an annual report on its grant programs to the President and for the President to combine these reports into an annual program assessment. The latter would be submitted to Congress to assist it in performing its periodic review and program oversight functions under existing provisions of the Intergovernmental Cooperation Act of 1968. ACIR has supported those proposed amendments, and is happy to see similar provisions in S. 2925.

5. GAO would be authorized to perform continuing program audits of Federal programs and to follow up with a continuing series of short term audits (every six months in any program exhibiting deficiencies). These continuing audits would continue until the deficiencies were rectified. While this actually adds little to the existing authority of GAO, it would make it clear that Congress expects GAO to exercise its authority fully in this respect. Moreover, this is a finer grained approach to the similar objectives sought by other provisions of this bill, and ACIR supports it.

While ACIR generally supports the objectives of this bill, five rather substantial issues are raised which should be thoroughly considered by the Congress before it enacts a zero-based budget and program review and evaluation act.

1. Are the zero-based program review and automatic termination provisions too drastic?

Specific program proponents already have focused on these two provisions as the most dangerous features of this measure. They argue that these requirements jeopardize what they deem to be obviously beneficial programs—programs that required extraordinary effort for their initial enactment.

Others would contend that if every Federal program must start from scratch every four years, the Federal agencies will become more concerned with program renewal than with working toward the program's objectives. In the intergovernmental arena, they point out, many State, local, and regional units receiving Federal aid tend to spend so much time on grantsmanship to assure continued funding that they have little time left for implementation. This group believes that an emphasis on program objectives and accomplishments in the periodic program reviews could help to overcome such unfortunate tendencies, but program renewal for its own sake is a danger which Congressional reviews must guard against.

Some skeptics maintain that the termination provision is largely a procedural paper tiger, since the overwhelming majority of Federal assistance programs as well as most direct Federal undertakings already have specific authorization periods. These critics also contend that a zero-based review—if left to the traditional interplay of Congressional committee members and staff, middle management administrators, and affected interest groups—would produce little that is substantially different from what the current renewal process generates. And this suggests a second question.

2. What ensures that zero-based review and evaluation of Federal programs will actually take place?

Pessimists point to the failure of the present provisions in the Intergovernmental Cooperation Act of 1968 to modify Congress' reassessment of grant-in-aid programs, though they concede that the chief focus of Title VI is simply on aid programs having no expiration provision. They also note the failure of most committees to avail themselves of the opportunity afforded them under this earlier legislation, to request a GAO or ACIR study of any grant program that is up for renewal. They would remind the optimists that the proposed automatic termination provision constitutes no real threat to a program or its substantive committee if the latter decides on a perfunctory renewal strategy.

More sanguine observers would disagree, pointing to the marked change in the climate of opinion in Congress and the nation. The days of collusive oversight, of casual oversight, and of no real oversight at all are over, they feel. The diversity of current committee membership, the growing sense of fiscal discipline (within the new budgeting process and CBO), the undeniable gap between promise and performance in so many program areas combine to mark the beginning of a new era in Congressional stewardship of the nation's purse, its payroll, and its programs. This group, then, believes that the will is there to make the reviews work and they point to the fortuitous redundancies built into S. 2925 as an added factor

assuring this result. By requiring parallel reviews by GAO, the Congressional Budget Office, and the executive branch, the significant issues for review will very likely be raised by one or another body and placed before the appropriate Congressional committee in a way which demands a substantive response. While this may appear to be duplicative to some, its proponents believe it probably is the only way to respect both the independence of the two branches of government, and to reliably assure the type of in-depth review anticipated by the bill.

3. Can the workload of this periodic review process be accommodated?

This question, of course, assumes that the process will or should be real and well researched. Yet, as was already pointed out, periodic Congressional review of certain Federal-aid programs under existing provisions of the Intergovernmental Cooperation Act of 1968 are not being carried out, and S. 2925 would considerably broaden and deepen the required reviews. On several occasions in supporting amendments to the Intergovernmental Cooperation Act, ACIR has made the point that most Congressional committees are not properly staffed to carry out this review function. Despite recent staff additions, that point needs to be re-emphasized strongly with respect to S. 2925.

Just for Federal aid alone, not including the Federal government's own direct activities, our analysis shows—for example—about 60 transportation programs which would have to be reviewed; over 90 in elementary, secondary, and vocational education; and nearly 50 in higher education. Of course, a substantial majority of these and other Federal-aid programs already have their own termination dates—requiring individual Congressional reviews now. But the impact of scheduling a simultaneous reassessment of these various grants within an entire policy area is bound to increase the workload of certain committees. Moreover, the impact may be even greater for direct Federal programs. At the same time, if the initial reviews prove effective, numerous consolidations and terminations should occur, so that succeeding reviews would become more orderly and less burdensome. On balance, then, while S. 2925 would not establish a completely new type of activity in Congress, its overall effect would be to increase substantially the workload of an existing one. This may well involve a reappraisal of staff activities and qualifications, as well as a more realistic adjustment of the multiple demands on members' daily schedules.

Without a greater review capacity than presently exists in Congress, the reassessment process essentially would be to move toward a "management by exception" approach—thereby returning, at least in part, to a non-zero-based evaluation system. Alternatively, more reliance might be placed on executive branch and Congressional agency reviews than would appear to be anticipated in the bill. Yet, our reading of the measure suggests a desire by its authors to have major evaluations made by the regular standing committees of Congress. Hence, staff size and professionalism in these units cannot be ignored. It may be necessary, then, to provide training for the committee staffs in program evaluation techniques so that they can cope with the increasingly sophisticated evaluations made by Congressional and executive branch bureaucracies.

The oft maligned planning-programming-budgeting system (PPBS), after all, did not fail because of inadequacies in the concept, but because of the weight of its procedures, the amount of paper work required, and the highly technical nature of the evaluations required. The same fate easily could await zero-based periodic program review and evaluation unless major efforts are made to guard against it:

4. Can adequate zero-based program review and evaluation take place in election years?

It is common in years like this to hear that there will be little action on such-and-such bill "because this is an election year." Many members of Congress are busy campaigning and have little time for major committee work. Instead, they attempt to test significant issues in their campaigns. Yet, S. 2925 proposes that half of the periodic reviews take place in election years. Will this work satisfactorily? Or will those bills which happen to fall due in election years get short shrift? We have no satisfactory answers to these questions, but feel they should be raised.

5. What will be the role of the State and local governments with respect to review and evaluation of Federal-aid and national economic programs?

With Federal-aid to State and local governments, now at the annual level of \$60 billion, these programs have become major factors in the national economy as well as in the budgets of these recipient jurisdictions. Moreover, with the advent of five block grants and the continued growth in the number of categoricals, new inter-level management problems have arisen and many of the older ones still persist. Not to be overlooked here is the growing role of State aid to local governments—

now up to over \$50 billion (as of 1975)—and its relationship to Federal-aid programs. On this last point, ACIR's 1967 report entitled *Fiscal Balance in the American Federal System* (Volume I) noted that State legislators seldom play important parts in the Congressional hearings concerning Federal-aid programs, and urged State legislatures to more adequately monitor and take part in the development of Federal legislation related to programs being pursued in the States.

In short, if a systematic periodic Congressional review of Federal-aid programs is to be undertaken, such review certainly should provide for regular involvement of city, county, gubernatorial, and State legislative representatives. Advanced scheduling of these reviews would make it possible for all of these interests—including the State legislatures—to develop well considered comments about how Federal-aid programs affect their own responsibilities. Parallel reviews at State levels could be encouraged by direct invitations from the Congress to the State legislatures urging advance preparation and involvement in the Congressional review process. It should be noted that the Executive Branch of the Federal government has begun to involve State and local representatives in developing grant consolidation proposals.

To conclude, I view zero-based review and evaluation legislation as fundamental. It confronts basic systemic issues; hence it merits high priority consideration at this session of Congress.

I appreciate this opportunity to present the Commission's views on this major subject, and would be happy to participate further in the development of zero-based review and evaluation legislation.

Sincerely yours,

DAVID B. WALKER,
Assistant Director.

ADDITIONAL MATERIAL SUBMITTED
FOR THE RECORD

PREPARED STATEMENT OF DONALD H. SCHWAB, DIRECTOR, NATIONAL LEGISLATIVE SERVICE, VETERANS OF FOREIGN WARS OF THE UNITED STATES

Mr. Chairman and members of the committee, thank you for the privilege of presenting to this distinguished Committee the views of the Veterans of Foreign Wars of the United States with respect to pending legislation addressing the issue of Government economy and spending reform, commonly referred to as "sunset legislation".

My name is Donald H. Schwab and my title is Director of the National Legislative Service of the Veterans of Foreign Wars of the United States.

A number of bills have been introduced which would periodically, on a staggered basis, terminate budget authority for all Government programs except health care services, general retirement and disability insurance, and Federal employee retirement and disability programs which are funded by trust funds.

In addition, most bills would establish a one-time procedure whereby the General Accounting Office would identify duplicate and inactive programs, so that Congressional committees would be encouraged to eliminate or consolidate them.

Current V.F.W. Resolutions No. 606, entitled "Retain Veterans Rights and Programs" and No. 725, entitled "VA Authority Over Veterans Programs" were passed by the delegates to our last National Convention, representing our 1.8 million members, address the issue at hand and are appended to my testimony.

You will recall during the consideration of legislation, which subsequently became Public Law 93-344, the Congressional Budget and Impoundment Control Act of 1974, provisions were deleted which would have placed a three-year limit on the authorization of major programs (except trust funds). The rationale, therefore, as enunciated on page 3524 of the U.S. Code, Congressional and Administrative News, second session, 93d Congress, reads in part:

Although the goal of periodic assessments of program results is laudable, a uniform three-year limit could disrupt the operations of Federal agencies and impose a large workload on congressional committees. Bottlenecks in the authorizations process could be severely aggravated and the intent of S. 1541 that committee action on authorizing legislation be completed by May 15 would be rendered more difficult to achieve. Even with substantial increases in committee staffs, it is unlikely that they would be able to reauthorize almost one-third of the Federal Government each year, in addition to their growing legislative responsibilities.

The automatic termination of government programs would be an inefficient approach to program evaluation. It would be applied in equal measure to programs which can operate on a year to year basis and those which require long-lead planning and continuity of effort. It would generate needless uncertainty among groups such as the aged and the poor which rely on the Federal Government for portions of their income.

The Committee understands that the provisions of the 1970 Legislative Reorganization Act and other congressional initiatives have led to a sizeable increase in Federal evaluation activities. These should be encouraged and the substitute bill strengthens the evaluation role of committees, but not at the price of sudden program termination, instability in public services, or a "start-from-scratch" requirement.

Now, apparently, in less than two years, this rationale has not stood the test of time in the opinion of members of the Congress, who possess the greatest amount of expertise in budgetary matters.

Notwithstanding the foregoing, we believe the inclusion of veterans benefits in such a periodic reauthorization is both unnecessary and discriminatory and, further, that veterans benefits should be exempted as are other entitlement programs. The exclusion of entitlement programs within subfunctional categories 551, 601, and 602 is predicated on the fact they are trust funds to which the recipients made a contribution. In the opinion of the Veterans of Foreign Wars, the Congress of the United States holds in its hands no more precious trust than the benefits it has so wisely granted those who have defended this nation in its times of peril throughout our history. Yes, this is a most sacred trust.

In regard to contributions, let us not forget all who served in uniform in time of war or hostility and regardless of in what capacity or where made contributions. All contributed their service, and the majority, many years from their lives, from their endeavors and from their families. Many contributed parts of their bodies, their eyesight, their hearing, their sanity, or their health in general. There are the glorious heroes who made the supreme sacrifice by contributing their lives. The wives, widows, half orphans, and parents of these gallant men also contributed in many ways and let us not forget John Milton's quotation: "They also serve who only stand and wait."

There is another compelling reason why veterans benefits should not be subject to reauthorization. If such a thing exists as veto-proof legislation, veterans benefits fall into this category as the Congress has proven on numerous occasions. Knowing this, it is quite within the realm of possibility amendments not germane to veterans benefits would be added on to each reauthorization and make such "Christmas tree legislation", carrying along bills which could not possibly pass Congress on their merit.

Mr. Chairman, as you are no doubt aware, the concept of veterans benefits predates the effective date of the Constitution of the United States and the first Congress of the United States, both of which took place on March 4, 1789.

As a matter of fact, the first veterans benefit on record in America is one enacted by the pilgrims of Plymouth Colony in 1636, which provided that any soldier injured in the defense of the Colony "shall be maintained competently by the Colony during his life."

Other colonies followed suit and by the time the United States was welded into a single nation in 1776 the concept of benefits for veterans was well established.

This concept was further enunciated by the Commander of the Continental Army, General George Washington, on June 8, 1783, in a letter to the Governors of all States, in which he stated, in part, "It (benefits) was a part of their hire . . . it was the price of their blood and of your Independency, it is therefore more than a common debt, it is a debt of honour . . ."

One of the first actions taken by the first Congress of the United States was to pass a Federal pension law.

These concepts were strengthened when Abraham Lincoln in his Second Inaugural Address, called upon the nation ". . . to care for him who shall have borne the battle, and for his widow and his orphan . . ."

A grateful nation through the wisdom of Congress has always acknowledged this debt and continues to fulfill its commitment to compensate disabled veterans for their disabilities incurred in their nation's service and their dependents for the loss of life or earning capacity of the veteran, to rehabilitate veterans, and help them toward adjustment in civil life and to care for needy veterans who cannot be completely rehabilitated "due to their nonservice connected disabilities."

We in the Veterans of Foreign Wars believe it would be a most cruel and unnecessary act to subject the recipients of veterans benefits to the mental anguish every four years of worrying whether or not their hard fought, won, and deserved benefits would continue to be forthcoming. Therefore, and in view of the foregoing, we earnestly request veterans benefits and services be excluded from any periodic termination and reauthorization.

Thank you.

RESOLUTION No. 606

RETAIN VETERANS RIGHTS AND PROGRAMS

Whereas there have been proposed or are presently pending before the Congress a number of flagrant examples, which, if approved, would do irreparable damage and permanent injury to the integrity of the concept of veterans rights and benefits, such as (1) a national health insurance program which could swallow up the VA hospital system; (2) a new Department of Health which contemplates taking over all veterans hospitals and other medical facilities for the medical care and treatment of veterans; (3) a proposal to establish a new Department to include all housing programs, which logically would have to include the GI guaranteed and direct home loan assistance program operated by the VA; (4) proposals to transfer the responsibility for GI Bill and VA educational programs to the Office of Education; (5) medical planners proposing that the Department of Health, Education, and Welfare exercise dominion and control over the Veterans Administration hospital and medical budget and its far-flung medical care system; and (6) Social Security taking over the veterans pension program: Now, therefore be it

Resolved, By the 76th National Convention of the Veterans of Foreign Wars of the United States, that we urge the members of the Veterans of Foreign Wars to notify their United States Senators and Congressmen of our total opposition to any and all proposals which could be construed as dismembering, dismantling, or in any way diminishing the integrity of the programs of veterans rights and benefits administered by the Veterans Administration and to fight to the last ditch proposals which will take away and kill our cherished and hard-won veterans rights and benefits.

[Adopted by the 76th National Convention of the Veterans of Foreign Wars of the United States held in Los Angeles, California, August 15 through 22, 1975.]

RESOLUTION No. 725

VA AUTHORITY OVER VETERANS PROGRAMS

Whereas the Veterans Administration is an independent establishment in the Executive Branch of the Government, especially created for or concerned in the administration of laws relating to the relief and other benefits provided by law for veterans, their dependents, and their beneficiaries; and

Whereas the Administrator of Veterans Affairs, appointed by the President of the United States, by and with the advice and consent of the Senate, is the head of the Veterans Administration; and

Whereas the Administrator, under the direction of the President, is responsible for the proper execution and administration of all laws administered by the Veterans Administration; and

Whereas there is consistency and common purpose among the many benefits and rights established by the Congress of the United States for veterans of service in the Armed Forces of the Nation and for the dependents and beneficiaries of deceased former members of these forces; and

Whereas with the establishment of the Veterans Administration in 1930 and centralization of the management, direction, and control of benefit programs and services, veterans and their survivors have experienced service and assistance in their claims for benefits unparalleled by beneficiaries of any other federal agency; and

Whereas from time to time, legislative or administrative reorganization plans have been presented which would merge jurisdiction and administration of veterans medical care, housing, income maintenance, and education and training programs with those provided for nonveterans and under the administration of another federal agency: Now, therefore, be it

Resolved, By the 76th National Convention of the Veterans of Foreign Wars of the United States, that we exert every effort and all resources at our command to assure that the Veterans Administration shall continue to be the sole independent establishment in the Executive Branch of the United States Government responsible for the administration and execution of benefit programs and service provided by law for veterans, their dependents, and beneficiaries.

[Adopted by the 76th National Convention of the Veterans of Foreign Wars of the United States held in Los Angeles, California, August 15 through 22, 1975.]

PREPARED STATEMENT OF THE CHAMBER OF COMMERCE OF THE UNITED STATES

(Presented by Richard L. Leshner*)

On behalf of the National Chamber, representing more than 61,000 business firms, chambers of commerce and trade and professional associations, I appreciate the opportunity to share with you our views on legislation to establish a procedure for periodic zero-base review and evaluation of government programs and activities to eliminate inactive and overlapping federal programs.

The National Chamber's Board of Directors has approved support for legislation along the line of H.R. 14077 and H.R. 11734. It is encouraging to note that there are more than one hundred Representatives co-sponsoring zero-base budgeting legislation in the House and about forty Senators on a similar bill in the Senate.

*President, Chamber of Commerce of the United States.

The relentless growth in federal spending programs and the many years of successive federal deficits, regardless of the nation's prosperity, is evidence that something is seriously wrong with the process by which federal spending programs have been authorized and funded. Programs are continued year after year largely without evaluation and appraisal as to their achievements in relation to their original objectives.

Congress is responsible for federal spending programs and for making necessary changes. Congress can, and must, modernize the processes of oversight. Then, through effective evaluation, it can fit federal programs to today's priorities.

A review of the past ten years shows the inordinate growth of federal expenditures compared to total revenue and Gross National Product (GNP). Expenditures have taken a larger share of GNP—up nearly five percentage points—while revenue has remained a fairly constant percentage of GNP. In other terms, revenue increased about 130 percent over the ten-year period but expenditures rose nearly 180 percent. As a consequence, the annual deficit has increased from \$3.8 billion in 1966 to almost \$70 billion for the current fiscal year. In the meantime, our national debt has nearly doubled. The average American family's share of the debt is approaching \$9,000.

If given a realistic choice, I think taxpayers would opt for a balanced budget, except during periods of recession and high unemployment. It is our view that the budget should be balanced over the course of the business cycle. It should not be necessary to raise the debt limit continuously to accommodate programs for which a high priority has not been determined through a timely, systematic process.

An essential part of an effective budgetary process is the setting of priorities under the constraint of an overall spending ceiling. We are, of course, pleased with the way Congress has proceeded to implement the Congressional Budget and Impoundment Control Act of 1974. Through the leadership of the House and Senate Budget Committees, a total budget ceiling was established for fiscal year 1976 and program spending authorities were trimmed to stay under the adopted ceiling. Now it appears that the deficit, though inordinately high, will be at least \$6 billion below the level expected in the final budget resolution for 1976.

Experience has shown that once programs are adopted they are likely to continue regardless of whether they meet their original objectives, or whether a change in national priorities should result in shifts from current programs. Under the current system, we have developed layers of programs which are meant to deal with essentially the same problems. New programs are added as old programs prove ineffective, but the old programs are allowed to continue. Only the emphasis is changed. The result is growth of federal expenditures at an exponential rate. The automatic expiration of spending authorities would force the reconsideration of programs as an ordinary, rather than extraordinary, course of action.

The prevailing system, even with the revised budget control procedure, tolerates avoidance of any real scrutiny of spending programs, many of which operate under permanent authorization. Administrative agencies are not subjected to legislative committee overview on these programs. They go directly to appropriations committees. The appropriation committee process is not designed to evaluate the impact of federal programs. It only sets appropriate funding levels for existing programs. Thus, the funding of these programs is a foregone conclusion.

Many federal programs not only produce little beneficial effect; they actually have a deleterious effect on the economy. The fact that a family could theoretically collect welfare benefits from as many as 22 different programs, as was pointed out by a Congressional committee, raises serious question as to the effectiveness of legislative oversight.

The Budget Control Act is a significant improvement over the previous system. But it does not go far enough. It does nothing about already established "uncontrollable" programs that enjoy continuing spending authority. It does not call for termination of obsolete programs or for the consolidation of duplicate or overlapping programs and activities. Under current budgetary procedures, programs, once adopted, take on a life of their own, regardless of their effectiveness, and additional programs are frequently enacted to deal with the same problems that existing programs were originally meant to handle. For example, of the over 1100 different programs in the *Catalog of Federal Domestic Assistance Programs*, 30 deal with consumer protection. Another 49 deal with agriculture.

The zero-base budgeting concept, as provided in H.R. 11734 and H.R. 14077, is designed to overcome these deficiencies. The proposed legislation would complement and strengthen the procedure established in the 1974 Act by requiring periodic systematic evaluation of federal programs to determine whether or not they deserve to be reauthorized. Both bills would group virtually all programs

according to related function categories and schedule them for termination every four years. The expiration dates would be staggered over a four-year period, beginning with fiscal year 1979.

H.R. 14077 calls for the automatic termination of spending authority for federal programs, regardless of the spending level, unless the standing committee reports a zero-base review and evaluation. H.R. 11734 would permit new spending authority for a program, even though it has not been subjected to a zero-base review, if the new budget authority does not exceed the current level of spending authority. We strongly recommend the provision in H.R. 14077. H.R. 11734 would do little to consolidate overlapping programs or to eliminate obsolete or wasteful programs as long as the spending did not increase.

There appears to be a difference of opinion whether the review and reevaluation should take place every four years or every five years. We yield to the wisdom and experience of Congress and the Administration. The longer period would stretch out the workload but the interval should not be longer than five years. After all, the purpose of zero-base budgeting is to stop wasting money on worthless or unnecessary programs.

New programs, where benefits are uncertain, should be pilot tested for an even shorter period of time than five years before committing large sums of money to carry them out. Then, if an individual program does not work, or cannot achieve the desired results, it can be terminated with a minimal cost. Since government officials and consumers expect industry to pretest its products, it is logical that federal programs be proven before they are presented to the whole country.

The pending bills would require the Executive branch to conduct a review of each program and present its report with recommendations to the appropriate standing committee of both houses. The committees, with the assistance of the General Accounting Office (GAO) and the Congressional Budget Office (CBO), would in turn prepare evaluations and report with recommendations to the full House or Senate. An appropriate schedule of reporting dates can be decided on by the Administration and Congress, taking into consideration the timetable established by the Budget Control Act.

Apparently, there is a question as to whether so-called "tax expenditures" should be included in the zero-base budgeting process. When I testified before the Subcommittee on Intergovernmental Relations of the Senate Committee on Government Operations, Senator John Glenn (D-Ohio) asked me whether I was of the opinion tax expenditures should be included within zero-base budgeting. Erroneously, I answered in the affirmative. Frankly, I did not appreciate the real significance of the phrase "tax expenditures".

Since then, I have examined this matter fully, and am now aware that I very definitely should have answered Senator Glenn in the negative.

The tax expenditure concept presupposes that the federal government owns the taxpayer's income, and by not taking it all, is giving the taxpayer some sort of grant or subsidy. We do not agree with this concept.

A zero-base review of the deductions, exclusions, credits, exemptions, and deferral provisions of the tax law would necessarily have to be tied into a review of the basic tax structure, which is not within the scope of a four or five year zero-base review process. It must be apparent that the Ways and Means Committee, which has been engaged in attempting to write a tax reform bill for over three and a half years, could not possibly review one-fourth or even one-fifth of the Internal Revenue Code each year.

Not only would it be impossible for the tax writing committees of the two houses of Congress to review one-fourth or even one-fifth of the Internal Revenue Code each year; the transition rules alone for the provisions scheduled for termination that would have to be written in case of an absence of reenactment would keep both tax writing committees busy all during the year—every year.

Were the provisions of the Internal Revenue Code scheduled to terminate every five years, it could have a pronounced impact on individual and business planning, and could prompt serious difficulties for the economy. The continuity of the tax law is a necessary ingredient in business planning; zero-base tax expenditures could present perpetual uncertainty for the business planner. It is our view that the sunset provisions of zero-base budgeting should be applied to federal government spending and not to the provisions of the tax laws.

In reexamining every major public program, Congress will be compelled to ask: Is the program achieving its intended purpose? Have the results been worth the expenditures? Should the program be terminated or consolidated with other similar programs? To continue beyond its scheduled termination date, a program would have to be justified and reauthorized by Congress. As a result, when the termina-

tion date approaches, there should be much attention and debate provided by the affected interest groups and Congress on the merits of the program. Better informed decisions on the expenditure of public funds should result.

The most valuable feature of the zero-base budgeting legislation is that it would complement the budget control procedure established in the 1974 Act. With the cooperation of the Administration and the GAO, Congress should be able to weed out a number of outdated programs, consolidate others that duplicate or overlap each other and possibly close the door on backdoor spending. It should be recognized, however, that the new procedure could become a time-consuming and costly operation. If the OMB, GAO, CBO, the two budget committees and the standing Congressional committees all attempt to conduct separate fact-finding studies and detailed analyses of each program scheduled for termination in a given year, it would mean much duplication of effort—a substantial increase in manpower and paperwork. The success of the whole zero-base budgeting process may well depend on the mechanics of the review and evaluation procedure. It seems to me that the process should begin at the lowest program or budgeting level within the Executive agencies. The manager of each program should be responsible for assembling the factual information, citing the objectives of enabling legislation, identifying low and high priority functions and proposing improvements in efficiency and effectiveness, including the consolidation or termination of programs. The report should be in response to a carefully prepared form requesting the above information and include proposals for program alternatives at different increments of funding. It should also contain an analysis of the consequences if the program were terminated.

The basic program review and evaluation process would enable OMB to continue the same overall budgeting and policy evaluation that it currently conducts, i.e., evaluation of each program according to authority, objectives, relative importance and recommended funding level. Of course, the reports to Congress would include more of the supportive information requested of agency and program administrators on programs scheduled for termination in the next fiscal year, according to the sunset provisions of the legislative proposals before this Committee. Although the legislation would establish a sunset and review schedule for each program function, it should authorize OMB and the standing Congressional committees to give priority to programs which are obviously in greatest need of revision. There should be no significant increase in OMB staff to carry out all the zero-base review responsibilities. While the new process would require additional paperwork, this could very likely be partially offset by discontinuing some of the existing reports that would no longer be needed.

This procedure would, in turn, enable the standing committees of Congress to perform their oversight responsibilities on the programs scheduled for zero-base review based on the information provided by OMB and, where desired, from the program managers. If a committee does not agree with the priorities set by OMB, it could establish its own and act accordingly. The standing committees would then review and submit their legislative recommendations on each program scheduled for termination to the appropriate body of Congress. This procedure would in no way conflict with the process established in the Budget Control Act.

The shift to zero-base reviews on a regular basis should also serve to reduce the amount of effort required for annual appropriations. Less time would be consumed in the appropriations process, thus enabling the appropriations committees to more readily meet the timetable set by the Budget Control Act.

A few years of experience will undoubtedly suggest improvements in the process. It may also become evident that some structural adjustments in both OMB and the Congressional committees would enable them to act more effectively on closely related program functions.

Successful implementation of this legislation will be greatly enhanced if it is designed to—

- Establish a workable, efficient process with assigned responsibilities;

- Develop the requests for the right kind of information;

- Require pilot-testing of new programs; and

- Provide incentives for producing responsible evaluations and innovative options at the program level in the Executive agencies.

Practical incentives for compliance are most essential. The sunset provision would be a major incentive for all civil servants whose employment is involved. Incentives will also need to encourage positive constructive evaluations at the program level without limitations imposed by OMB or other agency administrators. Financial or promotional incentives to civil servants who propose more efficient operating procedures or the elimination of unnecessary programs would

stimulate more effective program evaluations. This has long been the practice of private industry. Also, reasonable assurance that employees whose jobs would be eliminated would be offered other public employment should obviate the fear of proposing the elimination of programs. This has worked successfully under the Georgia plan. Likewise, agency administrators who propose cost-reducing efficiencies could be rewarded by receiving new programs to manage.

Finally, incentives to agencies and departments to contract out more government services with the private sector, which is more responsive to cost-effective pressures, could also produce greater efficiency and flexibility in government. The government agency could then change contractors or terminate programs without experiencing the normal pressures for self-perpetuation.

In conclusion, the National Chamber supports passage of zero-base budgeting legislation encompassing the basic provisions of H.R. 14077 because:

- It calls for a continuous and careful review of all government spending programs by Congress and the Executive branch on a regular basis;

- It will make every program stand on its own merits;

- It will provide basic information for rearrangement of program priorities;

- It will provide a long overdue process for identifying and consolidating or eliminating many government programs that duplicate or overlap each other;

- It could bring to an end backdoor spending; and

- It will complement and reinforce the Congressional Budget and Impoundment Control Act of 1974.

The National Chamber intends to commit substantial resources to the passage of this bill utilizing our grass roots structure in communities throughout the nation.

Yet, even if all of these recommendations to improve our federal budget development process were implemented, our federal bureaucracy still would lack some of the ingredients that make private industry so efficient and competitive.

American business people expect the Administration and Congress to establish goals and priorities through the budget-making process. It is only through fiscally responsible decisions on revenue and spending that the government can achieve budgetary balance over the course of the business cycle.

Congress took a giant step in enacting and moving swiftly to implement the Congressional Budget and Impoundment Control Act of 1974. This Budget Committee Task Force, along with the related Congressional committees, is to be commended for pursuing the equally important next step to improve or weed out the wasteful programs on a systematic basis. If Congress enacts the objectives of zero-base budgeting legislation to complement the process of establishing goals and priorities set by the 1974 Act, another important step will have been taken to balance the federal budget over the course of the business cycle. This is what American business wants.

PREPARED STATEMENT OF THE NATIONAL ASSOCIATION OF MANUFACTURERS

The National Association of Manufacturers welcomes this opportunity to present its views on H.R. 11734. The NAM is a voluntary organization of over 13,000 industrial and business firms of all sizes located in every state throughout the nation.

The concept embodied in H.R. 11734 of quadrennial zero-base review and evaluation of Federal Government programs and activities is a sound one. The recognition of the need for elimination or consolidation of ineffective and/or overlapping federal programs is indeed essential and timely.

Enactment of this legislation would appear to be a logical extension of the congressional budget process. Whereas the Budget and Impoundment Control Act of 1974 provides Congress with a framework within which to meet specific spending targets, this legislation would zero in on the programs themselves. Comprehensive, periodic evaluation of old programs should contribute to both economy in government and a better allocation of public funds—and, therefore, a considerable improvement over the traditional incremental method of budgeting.

Although certain programs such as the trust funds would be exempted from the mandatory termination and re-authorization provisions of the bill, the increase in growth of this sector of the budget over the long run suggests that a review of these programs, at the very least, would be well warranted every four years, as H.R. 11734 provides. These program expenditures constituted 19.4% of all federal budget outlays in fiscal 1968 and an estimated 30.3% in fiscal 1976.

The basic purpose of the proposal is to provide a better means for both Congress and the Executive Branch to evaluate the cost effectiveness of government programs. It is far too important to be ignored because of the strenuous and perhaps burdensome paperwork requirements of compliance.

The business community commends the intent of H.R. 11734 to bring further reason and economy to bear on the federal budgetary process.

PREPARED STATEMENT BY DR. ALICE M. RIVLIN DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Mr. Chairman and members of the committee, I appreciate the opportunity to discuss with you some of the general issues that are raised by S. 2925, the Government Economy and Spending Reform Act.

The basic purpose of this legislation is to build, extend and strengthen the decision making processes that were initiated by the Congressional Budget and Impoundment Control Act of 1974. Although it has been in operation less than two years, the Budget Act has had a significant impact; the Congress is now making explicit and informed decisions on the federal budget *as a whole*. For the first time the Congress is determining explicitly the appropriate levels of total federal spending and revenues. The new budget process has also made the degree of stimulus or restraint that the federal budget exerts on the nation's economy a subject of congressional debate and decision. Finally, the new budget process, with its emphasis on functional totals, has focussed attention on the allocation of resources among the broad areas of national concern. In summary the new budget process has given the Congress a grip on the large issues:

How big should the federal sector be?

How much fiscal stimulus should the federal budget provide?

Which of the broad competing needs of the nation should be given priority?

However, while the capacity of the Congress to deal with these large issues has been enhanced tremendously, little has been done to augment its ability to deal with the individual parts. S. 2925 would fill this void; its general thrust is to establish a much-needed mechanism for systematically reviewing the various programs and activities of the federal government. Such a mechanism would represent a natural complement to and extension of the existing budget process for it would provide the tool required to fully implement the broad priority-setting aspects of that process. The periodic review and evaluation of existing programs called for in S. 2925 could provide an indication of the impact that would result if the resources devoted to a specific budget function were increased or decreased. The identification of duplicative or ineffective programs would highlight the potential for reducing spending in a functional area without seriously impairing the achievement of federal objectives.

While a periodic and systematic evaluation of federal programs and activities is certainly needed, there are limits to the efficacy of the zero-based approach which should be mentioned. For one thing many of the activities of the federal government—ones which absorb both large and small amounts of resources—are not in question. For example, there exists a general consensus that national defense is a proper activity of the federal government—the existence of agencies to collect taxes (IRS) and statistics (Census) are not topics of debate either. The question with respect to these sorts of programs and activities is not whether they are the sorts of things the federal government should be engaged in but rather whether the activity is being done in the most effective or efficient manner. In essence the relevant questions that should be asked are not “should we or shouldn’t we have the program?” Rather the important questions are how agreed on objectives should be met and how existing programs should be altered or improved in the future.

A second point that I think is worth mentioning is that often it is difficult to measure the effect of federal programs. This is not a reflection of the incompetence of those who have attempted evaluation so much as the intractability of the problem. In some instances the criteria upon which a program should be evaluated are far from clear. The program's objectives may be general, numerous, or difficult to quantify. In such instances no amount of resources poured into evaluation will provide an unequivocal answer to the question of whether a particular program is working. If reforms along the lines suggested in S. 2925 result in an explicit statement of the goals and objectives against which each new federal program should be evaluated we would have an easier time determining whether programs were working as they should; but no one should imagine that the answers will be easy to find.

Even where the objectives of a federal program are clear and quantifiable, evaluation can not always provide the clear cut answers that are needed. Evaluation is an evolving art. In our highly complex and interdependent society it is not always possible to determine what the situation would be if a certain program were terminated. Take an admittedly extreme example such as Social Security.

While it is easy enough to indicate who receives benefits from this program and what these benefits add to the recipient's income, it is not clear that this demonstrates what the nation would be like without the Social Security System. Possibly if the Social Security System had never been established, private pension plans would have grown faster and larger, workers would have saved more through private channels during their working years and therefore their retirement income from sources other than Social Security would be higher than it is today. Any federal program sets off a chain of responses and it is not always possible or useful for even the most sophisticated evaluation to disentangle these changes in behavior. For this reason, among others, I am worried lest some feel that periodic review or evaluation of federal programs will inevitably lead to a clear indication of the effectiveness of the programs or an answer to the question of whether it should be continued.

When discussing any major reform proposal, it is possible to dwell on the many specific problems that would be faced in implementation. I will not do this with respect to S. 2925 because, I think for the most part these can be resolved quite easily. However, I would like to make some general observations stemming from my experiences with PPBS during the 1960s. One lesson from that era is that it is a mistake to be too rigid. Federal programs and activities vary tremendously. Any system that forces all programs or evaluations into the same mold is destined to fail. For example, it may not be best to force all programs into a four year cycle of reevaluation and review when some have longer gestation periods and others come and go within a briefer span of time. One factor that has certainly contributed to the success of the new budget process has been its flexibility. For example, the March 15 reports of the congressional committees varied widely in focus and level of detail. This reflected the different interests, concerns and responsibilities of the committees.

A second lesson that can be learned from the PPBS experience is the need to move gradually but deliberately when implementing a major reform. The capacities of the Executive and Legislative Branches are limited. The types of evaluation and review proposed in this legislation could exceed these capacities and lead to changes in behavior that were mechanistic and meaningless rather than the thoughtful reassessments that are intended. Implementation of the Budget Act in stages proved a sensible thing to do. It may be that the objectives of S. 2925 would best be achieved through a similar evolutionary procedure in which implementation of the reform was accomplished in stages over a number of years.

In conclusion, I would like to suggest that it might be advisable to call upon the resources that are available in GAO, CBO, CRS and OMB to examine some of the issues that have been raised during these hearings. For example, you might want to examine in greater depth such questions as:

How large is the workload that would be imposed on Congress and the Executive by this approach?

Can federal programs and activities be divided in a noncontroversial way into those in which efficiency and changes at the margins are the major questions and those in which the existence of the program is at issue? In other words into those where a zero-based approach would and wouldn't make the most sense?

Is it possible to specify the minimum time intervals at which different federal programs and activities can be meaningfully reviewed?

What can be learned from the numerous evaluations of federal programs that already exist? Can these be summarized in a way that would be meaningful for the proposed process? What would an evaluation of a specific program look like?

While often calls for further study are used as an excuse to delay difficult decisions, I do not think that this need be the case. The types of activity I have suggested could be carried out as this committee continued its deliberations and reworked the ideas contained in this proposed legislation. As the long evolution of the Budget Act amply demonstrates, major reforms, if they are to work, must be crafted carefully.

Mr. Chairman, I thank you again for this opportunity to appear and will be pleased to answer any questions that the members of the committee may have.

[Whereupon, at 12:30 p.m. the task force adjourned.]

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